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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2022

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

For the transition period from ____________________ to ________________________

Commission file number: 000-31671

INTELLINETICS, INC.
(Exact name of registrant as specified in its charter)

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

(614) 921-8170
(Registrant's telephone number, including area code)

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None.	INLX	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	☐	(Do not check if a smaller reporting company)	Accelerated filer	☐
Non-accelerated filer	☐		Smaller reporting company	☒
Emerging growth company	☐			

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

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

As of May 16, 2022, there were4,073,757 shares of the issuer's common stock outstanding, each with a par value of $0.001 per share.

INTELLINETICS, INC.
Form 10-Q
March 31, 2022
TABLE OF CONTENTS

	Page No.
PART I	
FINANCIAL INFORMATION	5

ITEM 1.	Financial Statements.	5
	Condensed Consolidated Balance Sheets as of March 31, 2022 (Unaudited) and December 31, 2021	5
	Condensed Consolidated Statements of Operations for the three months ended March 31, 2022 and 2021 (Unaudited)	6
	Condensed Consolidated Statement of Stockholders’ Equity for the three months ended March 31, 2022 and 2021 (Unaudited)	7
	Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2022 and 2021 (Unaudited)	8
	Notes to Condensed Consolidated Financial Statements (Unaudited)	9
ITEM 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations.	23
ITEM 3.	Quantitative and Qualitative Disclosures About Market Risk.	30
ITEM 4.	Controls and Procedures.	30
PART II		
OTHER INFORMATION		31
ITEM 1.	Legal Proceedings.	31
ITEM 1A.	Risk Factors.	31
ITEM 2.	Unregistered Sales of Equity Securities and Use of Proceeds.	31
ITEM 3.	Defaults Upon Senior Securities.	31
ITEM 4.	Mine Safety Disclosures.	31
ITEM 5.	Other Information.	31
ITEM 6.	Exhibits.	31
SIGNATURES		32

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 the effects of inflation and 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;
- our expectation that the shift from an offline to online world will continue to benefit our business;
- our ability to integrate our 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;

- 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, 2021, filed on March 24, 2022, 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.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTELLINETICS, INC. and SUBSIDIARIES
Condensed Consolidated Balance Sheets

	(unaudited) March 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 2,172,758	$ 1,752,630
Accounts receivable, net	898,399	1,176,059
Accounts receivable, unbilled	473,986	444,782
Parts and supplies, net	65,713	76,691
Other contract assets	86,603	78,556
Prepaid expenses and other current assets	211,087	155,550
Total current assets	3,908,546	3,684,268
Property and equipment, net	1,087,832	1,091,780
Right of use assets	3,687,107	3,841,612
Intangible assets, net	914,377	968,496
Goodwill	2,322,887	2,322,887
Other assets	79,293	53,089
Total assets	$ 12,000,042	$ 11,962,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 330,270	$ 181,521
Accrued compensation	287,044	343,576
Accrued expenses, other	155,384	161,862
Lease liabilities - current	635,423	616,070
Deferred revenues	1,136,066	1,194,649
Deferred compensation	80,662	100,828
Earnout liabilities - current	994,527	958,818
Notes payable - current	1,807,128	-
Total current liabilities	5,426,504	3,557,324
Long-term liabilities:		
Notes payable - net of current portion	-	1,754,527
Lease liabilities - net of current portion	3,151,110	3,316,682

Earnout liabilities - net of current portion		700,358		671,863
Total long-term liabilities		3,851,468		5,743,072
Total liabilities		9,277,972		9,300,396
Stockholders' equity:				
Common stock, $0.001 par value, 25,000,000 shares authorized; 2,831,169 and 2,823,072 shares issued and outstanding at March 31, 2022 and December 31, 2021, respectively		2,831		2,823
Additional paid-in capital		24,377,681		24,297,229
Accumulated deficit		(21,658,442)		(21,638,316)
Total stockholders' equity		2,722,070		2,661,736
Total liabilities and stockholders' equity	$	12,000,042	$	11,962,132

See Notes to these condensed consolidated financial statements

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

	For the Three Months Ended March 31,			
		2022		**2021**
Revenues:				
Sale of software	$	64,491	$	9,594
Software as a service		431,221		323,726
Software maintenance services		336,602		340,446
Professional services		1,587,948		1,652,463
Storage and retrieval services		283,250		308,990
Total revenues		2,703,512		2,635,219
Cost of revenues:				
Sale of software		26,193		4,237
Software as a service		91,249		76,340
Software maintenance services		18,300		24,388
Professional services		848,167		834,238
Storage and retrieval services		87,766		91,112
Total cost of revenues		1,071,675		1,030,315
Gross profit		1,631,837		1,604,904
Operating expenses:				
General and administrative		938,883		1,039,026
Change in fair value of earnout liabilities		64,204		69,950
Transaction costs		70,051		-
Sales and marketing		352,114		290,311
Depreciation and amortization		114,110		94,884
Total operating expenses		1,539,362		1,494,171
Income from operations		92,475		110,733
Other income (expense)				
Gain on extinguishment of debt		-		845,083
Interest expense, net		(112,601)		(113,044)
Total other (expense) income		(112,601)		732,039
(Loss) income before income taxes		(20,126)		842,772
Income tax benefit		-		-
Net (loss) income	$	(20,126)	$	842,772
Basic net (loss) income per share:	$	(0.01)	$	0.30
Diluted net (loss) income per share:	$	(0.01)	$	0.27
Weighted average number of common shares outstanding - basic		2,830,899		2,822,665
Weighted average number of common shares outstanding - diluted		2,830,899		3,106,885

See Notes to these condensed consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity

For the Three Months Ended March 31, 2022 and 2021
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
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	-	-	23,098	-	23,098
Net Income	-	-	-	842,772	842,772
Balance, March 31, 2021	2,823,072	$ 2,823	$ 24,228,074	$ (22,153,495)	$ 2,077,402
Balance, December 31, 2021	2,823,072	$ 2,823	$ 24,297,229	$ (21,638,316)	$ 2,661,736
Stock Issued to Directors	8,097	8	57,492	-	57,500
Stock Option Compensation	-	-	22,960	-	22,960
Net Loss	-	-	-	(20,126)	(20,126)
Balance, March 31, 2022	2,831,169	$ 2,831	$ 24,377,681	$ (21,658,442)	$ 2,722,070

See Notes to these condensed consolidated financial statements

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

	For the Three Months Ended March 31, 2022	2021
Cash flows from operating activities:		
Net (loss) income	$ (20,126)	$ 842,772
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	114,110	94,884
Bad debt (recovery) expense	(2,097)	(2,634)
Parts and supplies reserve change	-	4,500
Amortization of deferred financing costs	25,935	25,935
Amortization of debt discount	26,666	26,666
Amortization of right of use asset	154,505	129,560
Stock issued for services	57,500	57,500
Stock options compensation	22,960	23,098
Gain on extinguishment of debt	-	(845,083)
Change in fair value of earnout liabilities	64,204	69,950
Changes in operating assets and liabilities:		
Accounts receivable	279,757	(260,009)
Accounts receivable, unbilled	(29,204)	177,371
Parts and supplies	10,978	(593)
Prepaid expenses and other current assets	(89,788)	(65,309)
Accounts payable and accrued expenses	85,739	227,897
Lease liabilities, current and long-term	(146,219)	(129,759)
Deferred compensation	(20,166)	-
Accrued interest, current and long-term	-	442
Deferred revenues	(58,583)	(50,319)
Total adjustments	496,297	(515,903)
Net cash provided by operating activities	476,171	326,869
Cash flows from investing activities:		
Purchases of property and equipment	(56,043)	(231,699)
Net cash used in investing activities	(56,043)	(231,699)
Net increase in cash	420,128	95,170
Cash - beginning of period	1,752,630	1,907,882
Cash - end of period	$ 2,172,758	$ 2,003,052
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 60,000	$ 60,000
Cash paid during the period for income taxes	$ 1,303	$ 913

See Notes to these condensed consolidated financial statements

1. Business Organization and Nature of Operations

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

Our digital transformation 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, 2022 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, 2021 filed with the SEC filed on March 24, 2022.

3. 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") 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, 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.

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, 2021 filed with the SEC filed on March 24, 2022.

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 tables present changes in our contract assets during the three months ended March 31, 2022 and 2021:

	Balance at Beginning of Period	Revenue Recognized in Advance of Billings	Billings	Balance at End of Period
Three months ended March 31, 2022				
Accounts receivable, unbilled	$ 444,782	$ 700,869	$ (671,665)	$ 473,986
Three months ended March 31, 2021				
Accounts receivable, unbilled	$ 523,522	$ 466,310	$ (643,681)	$ 346,151

	Balance at Beginning of Period	Commissions Paid	Commissions Recognized	Balance at End of Period
Three months ended March 31, 2022				
Other contract assets	$ 78,556	$ 22,136	$ (14,089)	$ 86,603
Three months ended March 31, 2021				
Other contract assets	$ 31,283	$ 10,064	$ (9,225)	$ 32,122

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 been 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.

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 97% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of March 31, 2022, 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 $33,547. As of December 31, 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 $16,835. 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 three months ended March 31, 2022 and 2021:

	Balance at Beginning of Period	Billings	Recognized Revenue	Balance at End of Period
Three months ended March 31, 2022				
Contract liabilities: Deferred revenue	$ 1,194,649	$ 984,117	$ (1,042,700)	$ 1,136,066
Three months ended March 31, 2021				
Contract liabilities: Deferred revenue	$ 996,131	$ 684,140	$ (734,459)	$ 945,812

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. The Company recorded an allowance of $24,000 at March 31, 2022 and December 31, 2021.

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.

Intangible Assets

All intangible assets have finite lives and are stated at cost, net of amortization. Amortization is computed over the useful life of the related assets on a straight-line method.

Goodwill

The carrying value of goodwill is not amortized, but is tested for impairment annually as of December 31, as well as on an interim basis whenever events or changes in circumstances indicate that the carrying amount of a reporting unity may not be recoverable. An impairment charge is recognized for the amount by which the carrying amount exceeds the recorded fair value.

Impairment of Long-Lived Assets

We account for the impairment and disposition of long-lived assets in accordance with ASC 360, “Property, Plant, and Equipment.” We test long-lived assets or asset groups, such as property and equipment, for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable.

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

Recoverability is assessed based on comparing the carrying amount of the asset to the aggregate pre-tax undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. Impairment is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. The impairment loss, if any, is measured as the amount by which the carrying amount exceeds fair value, which for this purpose is based upon the discounted projected future cash flows of the asset or asset group. There was no impairment of long-lived assets in the three month periods ended 2022 or 2021.

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 earn-out 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.

Leases

We determine if an arrangement is a lease at inception. Operating leases in which we are the lessee are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the condensed consolidated balance sheets. We do not have any finance leases, as a lessee, and no long-term leases for which we are the lessor.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the reasonably certain lease term. As our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and reduced by lease incentives, such as tenant improvement allowances. Our lease terms include options to extend or terminate the lease only when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

Stock-Based Compensation

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

We account for stock-based payments to non-employees in accordance with ASC 718, "Compensation - Stock Compensation," which requires that such equity instruments be measured at their fair values on the grant date.

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

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. Such costs in the amount of $29,397 were capitalized during the first quarter 2022. No such costs were capitalized during the first quarter 2021. Such capitalized costs are stated at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the related assets on a straight-line basis, which is three years. At March 31, 2022 and December 31, 2020, our condensed consolidated balance sheets included $64,509 and $38,305, respectively, in other long-term assets.

For the three months ended March 31, 2022 and 2021, our expensed software development costs were $62,751 and $102,195, 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, 2022, including interim reporting periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the impact of the new guidance on our condensed consolidated financial statements and related disclosures.

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

Advertising

We expense the cost of advertising as incurred. Advertising expense for the three months ended March 31, 2022 and 2021 amounted to $448 and $675, respectively.

(Loss) Earnings 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 months ended March 31, 2022 reported a net loss, while the three months ended March 31, 2021 reported net income.

We have outstanding warrants and stock options which have not been included in the calculation of diluted net loss per share for the three months ended March 31, 2022 because to do so would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for each period are the same.

Income Taxes

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 March 31, 2022 and December 31, 2021, 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 ASC 280, “Segment Reporting,” 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.

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:

		Three months ended March 31, 2022		Three months ended March 31, 2021
Revenues				
Document Management	$	914,950	$	735,818
Document Conversion		1,788,562		1,899,401
Total revenues	$	2,703,512	$	2,635,219
Gross profit				
Document Management	$	734,906	$	587,500
Document Conversion		896,931		1,017,404
Total gross profit	$	1,631,837	$	1,604,904
Capital additions, net				
Document Management	$	1,687	$	38,117
Document Conversion		54,356		193,582
Total capital additions, net	$	56,043	$	231,699

		March 31, 2022		December 31, 2021
Goodwill				
Document Management	$	522,711	$	522,711
Document Conversion		1,800,176		1,800,176
Total goodwill	$	2,322,887	$	2,322,887

		March 31, 2022		December 31, 2021
Total assets				

Document Management	$ 2,303,195	$ 2,233,419
Document Conversion	9,686,847	9,728,713
Total assets	$ 12,000,042	$ 11,962,132

Statement of Cash Flows

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

4. Intangible Assets, Net

At March 31, 2022, intangible assets consisted of the following:

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	$ 119,000	$ (24,792)	$ 94,208
Customer contracts	5-8 years	1,242,000	(421,831)	820,169
		$ 1,361,000	$ (446,623)	$ 914,377

At December 31, 2021, intangible assets consisted of the following:

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	$ 119,000	$ (21,817)	$ 97,183
Customer contracts	5-8 years	1,242,000	(370,687)	871,313
		$ 1,361,000	$ (392,504)	$ 968,496

Amortization expense for the three months ended March 31, 2022 and 2021 amounted to $54,119. The following table represents future amortization expense for intangible assets subject to amortization.

For the Twelve Months Ending March 31,	Amount
2023	$ 216,475
2024	216,475
2025	216,475
2026	179,292
2027	32,275
Thereafter	53,385
	$ 914,377

5. 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, and accrued expenses approximate fair value because of its short maturity. Management believes that the carrying value of the 2020 Notes approximate fair value given that, while there has been change in the overall economic environment, there has not been significant net 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 months ended March 31, 2022 and 2021:

	March 31, 2022
Fair value at December 31, 2021	$ 1,630,681
Change in fair value	64,204
Fair value at March 31, 2022	$ 1,694,885

	March 31, 2021
Fair value at December 31, 2020	$ 2,444,000
Change in fair value	69,950
Fair value at March 31, 2021	$ 2,513,950

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.

6. Property and Equipment

Property and equipment are comprised of the following:

	March 31, 2022	December 31, 2021

Computer hardware and purchased software	$ 1,510,080	$ 1,494,918
Leasehold improvements	336,111	295,230
Furniture and fixtures	71,325	71,325
	1,917,516	1,861,473
Less: accumulated depreciation	(829,684)	(769,693)
Property and equipment, net	$ 1,087,832	$ 1,091,780

Total depreciation expense on our property and equipment for the three months ended March 31, 2022 and 2021 amounted to $59,991 and $40,765, respectively.

7. Notes Payable

Summary of Notes Payable to Unrelated Parties

The table below summarizes all notes payable at March 31, 2022 and December 31, 2021, respectively.

	March 31, 2022	December 31, 2021
Notes payable – "2020 Notes"	$ 2,000,000	$ 2,000,000
Less unamortized debt issuance costs	(95,094)	(121,029)
Less unamortized debt discount	(97,778)	(124,444
Less current portion	(1,807,128)	-
Long-term portion of notes payable	$ -	$ 1,754,527

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

As of March 31,	Amount
2023	$ 2,000,000
Total	$ 2,000,000

As of March 31, 2022 and December 31, 2021, accrued interest for these notes payable was $0. As of March 31, 2022, unamortized deferred financing costs and unamortized debt discount were reflected within short term liabilities on the condensed consolidated balance sheets. As of December 31, 2021, 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, for the three months ended March 31, 2022 and 2021, interest expense, including the amortization of debt issuance costs and debt discount, was $112,601 and $113,044, respectively.

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 June 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, was $26,666 and $26,667, respectively, for the three months ended March 31, 2022 and 2021.

PPP Note

On April 15, 2020, we were issued an unsecured promissory note ("PPP Note") under the Paycheck Protection Program through PNC Bank with a principal amount of $838,700. 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 Small Business Administration had forgiven the full amount of principal and interest of the PPP Note, and we have recognized a gain on extinguishment of debt of $845,083 for the three months ended March 31, 2021.

8. Deferred Compensation

Pursuant to an employment agreement, we have accrued incentive cash compensation for one of our founders totaling $80,662 as of March 31, 2022 and $100,828 as of December 31, 2021. During the three months ended March 31, 2022, we paid $20,166 in deferred incentive compensation, which amount was reflected as a reduction in our deferred compensation liability. We made no deferred incentive compensation payments during the three months ended March 31, 2021.

9. 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 March 31, 2022.

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. For each of the above listed leases, management has determined it will utilize the base rental period and have not considered any renewal periods.

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

For the Three Months Ending March 31,		Amount
2023	$	935,024
2024		924,598
2025		875,314
2026		885,260
2027		578,184
Thereafter		435,103
	$	4,633,483

Lease costs charged to operations for the three months ended March 31, 2022 and 2021 amounted to $243,301 and $238,075, respectively. Included in the lease costs for the three months ended March 31, 2022 and 2021 were short-term lease costs of $4,814 and $39,105, respectively. The following table sets forth additional information pertaining to our leases:

For the Three Months Ending March 31, 2022:		
Operating cash flows from operating leases	$	151,032
Weighted average remaining lease term – operating leases		5.1 years
Weighted average discount rate – operating leases		7.01%

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.

10. Stockholders' Equity

Common Stock

As of March 31, 2022, 2,831,169 shares of common stock were issued and outstanding, 131,700 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 $440,000 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 months ended March 31, 2022 and 2021, interest expense of $25,935 was recorded as amortization of the debt issuance costs for this private placement offering.

Warrants

The following sets forth the warrants to purchase our common stock that were outstanding as of March 31, 2022:

- Warrants to purchase 3,000 shares of common stock at an exercise price of $15.00 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 $12.50 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 16,000 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 three months ended March 31, 2022 or 2021.

11. 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 January 6, 2022 and February 15, 2021, we issued 8,097 shares and 12,207 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 vesting. Stock compensation of $57,500 was recorded on the issuance of the common stock for the three months ended March 31, 2022 and 2021.

Stock Options

We did not make any stock option grants during the three months ended March 31, 2022 or 2021. Stock-based compensation for options was $22,960 and $23,098 during the three months ended March 31, 2022 and 2021, respectively.

A summary of stock option activity during the three months ended March 31, 2022 and 2021 is as follows:

	Shares Under Option		Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life		Aggregate Intrinsic Value
Outstanding at January 1, 2022	144,860	$	5.61	8 years	$	19,200
Outstanding at March 31, 2022	144,860	$	5.61	8 years	$	19,200
Exercisable at March 31, 2022	68,335	$	7.32	7 years	$	19,200

	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 March 31, 2021	145,360	$	5.61	9 years	$	19,200
Exercisable at March 31, 2021	41,560	$	9.34	8 years	$	19,200

As of March 31, 2022 and December 31, 2021, there was $207,660 and $230,620, respectively, of total unrecognized compensation costs related to stock options granted under our stock option agreements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of two years. The total fair value of stock options that vested during the three months ended March 31, 2022 and 2021 was $10,238 and $10,800, respectively.

12. Concentrations

Revenues from a limited number of customers have accounted for a substantial percentage of our total revenues. During the three months ended March 31, 2022 and 2021, our two largest customers, the State of Michigan, and Rocket Mortgage, both direct clients, accounted for 40% and 10%, and 46% and 11%, respectively, of our total revenues.

For the three months ended March 31, 2022 and 2021, government contracts represented approximately 60% and 64% of our net revenues, respectively. A significant portion of our sales to resellers represent ultimate sales to government agencies.

As of March 31, 2022, accounts receivable concentrations from our three largest customers were 43%, 10%, and 9% of our gross accounts receivable, respectively by customer. As of March 31, 2021, accounts receivable concentrations from our two largest customers were 40% and 17% of gross accounts receivable, respectively by customer. Accounts receivable balances from our two largest customers at March 31, 2022 have been partially collected.

13. Certain Relationships and Related Transactions

We did not participate in any related person transactions during the three-month period ended March 31, 2022 or 2021.

14. Provision For Income Taxes

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. For the three months ended March 31, 2022 and 2021, 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 further federal or state tax since we have incurred losses since our inception.

A reconciliation is provided below of the U.S. Federal income tax expense at a statutory rate of 21% for the three months ended March 31, 2022 and 2021:

		March 31, 2022		March 31, 2021
U.S. statutory rate		21%		21%
U.S. Federal income tax at statutory rate	$	(4,226)	$	177,030)
Increase (decrease) in income taxes due to:				
Non-taxable PPP loan and accrued interest recovery		-		(176,190)
Non-deductible earnout expense		11,220		14,700
Non-deductible goodwill amortization		9,989		10,080
Other differences		93		1,380
Other change in valuation allowance		(17,076)		(27,000)
Income tax benefit	$	-	$	-

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

	March 31, 2022	December 31, 2021
Deferred tax assets		
Reserves and accruals not currently deductible for tax purposes	$ 47,622	$ 50,558
Amortizable assets	33,950	32,615
Net operating loss carryforwards	3,926,322	3,942,488
	4,007,894	4,025,661
Deferred tax liabilities		
Property and equipment	(224,792)	(225,484)
Net Deferred tax assets	3,783,102	3,800,177
Valuation allowance	(3,783,102)	(3,800,177)
	$ -	$ -

As of March 31, 2022 and December 31, 2021, we had federal net operating loss carry forwards of approximately $18,685,000 and $18,762,000, respectively, which can be used to offset future federal income tax. A portion of the federal and state net operating loss carry forwards expire at various dates through 2040, and a portion of the net operating loss carry forwards have an indefinite carry forward period. We recorded a valuation allowance against all of our deferred tax assets as of both December 31, 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.

15. Subsequent Events

Incentive Stock Option Issuance

On April 14, 2022, we issued incentive stock option awards to purchase an aggregate of 220,587 shares, with an exercise price of $6.08 per share, to seven members of our executive and management teams, subject to three-year vesting and in accordance with the terms and conditions of our 2015 Equity Incentive Plan. Stock compensation of approximately $1.2 million will be recorded over the vesting period.

Private Securities Offering

On April 1, 2022, we entered into a Securities Purchase Agreement (the "Securities Purchase Agreement") with certain accredited investors, pursuant to which we issued and sold (i) 1,242,588 shares of the Company's Common Stock, at a price of $4.62 per share, for aggregate gross proceeds of $ 5,740,756 and (ii) $2,964,500 in 12% Subordinated Notes ("Notes"), for aggregate gross proceeds of $8,705,256 for the combined private placement pursuant to the Securities Purchase Agreement (the "Offering"). We used a portion of the net proceeds of the Offering to finance the acquisition of Yellow Folder described below, and intend to use the remaining net proceeds for working capital and general corporate purposes, including potentially debt reduction and other future acquisitions.

The principal amount of the Notes, together with any accrued and unpaid interest thereon, become due and payable on March 30, 2025. Interest on the Notes will accrue at the rate of 12% per annum, payable quarterly in cash, beginning on June 30, 2022 and the entire outstanding principal and accrued but unpaid interest due on the Notes is payable on the maturity date. Any accrued but unpaid quarterly installment of interest shall accrue interest at the rate of 14.0% per annum. Any overdue principal and accrued and unpaid interest at the Maturity Date shall 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.

The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement offering of the Securities Purchase Agreement. In compensation, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase shares of Company common stock, an extension of its existing warrants, and reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. On April 1, 2022, the Company paid the placement agent cash in the amount of $696,420 and issued the placement agent warrants to purchase 124,258 shares at an exercise price at $4.62 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and are entitled to limited piggyback registration rights. In addition, we agreed to extend the expiration date of all currently outstanding warrants previously issued to the placement agent and/or its assignees to March 30, 2027.

Acquisition of Yellow Folder, LLC

On April 1, 2022, the Company acquired substantially all of the assets of Yellow Folder, LLC, a Texas limited liability company ("Yellow Folder"). Located in Dallas, Yellow Folder is a document solutions company that specializes in the K-12 education market.

The acquisition was consummated pursuant to an Asset Purchase Agreement, dated as of April 1, 2022 (the "Purchase Agreement"). The purchase price for Yellow Folder consisted of approximately $6.5 million in cash, on a cash-free, debt-free basis, with a preliminary working capital negative adjustment of $116,731, which remains subject to a post-closing net working capital true-up adjustment.

The Company incurred $70,051 of related acquisition costs in the three months ended March 31, 2022 which are reflected in transaction costs in the Condensed Consolidated Statement of Operations. The Company expects to report Yellow Folder as part of its Document Management segment during fiscal year 2022. The acquisition qualifies as a business combination and will be accounted for using the acquisition method of accounting.

As a result of limited access to Yellow Folder information required to prepare initial accounting, together with the limited time since the acquisition date and the effort required to conform the financial statements to the Company's practices and policies, the initial accounting for the business combination is incomplete at the time of this filing. As a result, the Company is unable to provide the amounts recognized as of the Yellow Folder acquisition date for the major classes of assets acquired and liabilities assumed, pre-acquisition contingencies and goodwill. Also, the Company is unable to provide proforma revenues and earnings of the combined entity. This information will be included in the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2022.

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, 2021. 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 month period ended March 31, 2022 as the first quarter 2022, and to the three month period ended March 31, 2021 as the first quarter 2021.

Company Overview

We are a document services and solutions software company serving both the small-to-medium business and governmental sectors. Our products and services are provided through two reporting segments: Document Management and Document Conversion. Our products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment 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 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 and processes who need them by making those documents easy to find and act upon, while also being secure, compliant, and audit-ready. 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 "software as a service" or "SaaS" 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 are consistent with industry best practices in data security and performance.

We operate a U.S.-based business with concentrated sales to the State of Michigan for our Document Conversion segment, complemented by our 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 leadership market positions, innovative product offering, growing customer base, and the impact of our sales and marketing programs. Examples of these programs include identifying and investing in growth and expanded market penetration opportunities, more effective products and services pricing strategies, 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 first quarter 2022 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, 2021.

Recent Developments

On April 1, 2022, we acquired substantially all of the assets of Yellow Folder, LLC, a Texas limited liability company ("Yellow Folder"). Located in Dallas, Yellow Folder is a document solutions company that specializes in the K-12 education market. The purchase price for Yellow Folder was approximately $6.5 million in cash, on a cash-free, debt-free basis, and subject to a post-closing net working capital adjustment. More details regarding the Yellow Folder acquisition are set forth in Note 15 Subsequent Events and in the Current Report on Form 8-K filed by the Company on April 5, 2022.

Also on April 1, 2022, we completed a private offering with certain accredited investors, pursuant to which we issued and sold (i) 1,242,588 shares of our common stock, at a price of $4.62 per share, for aggregate gross proceeds of $5,740,756 and (ii) $2,964,500 in 12% subordinated notes, for aggregate gross proceeds of $8,705,256 for the combined private placement (the "2022 Offering"). We used a portion of the net proceeds of the 2022 Offering to finance the acquisition of Yellow Folder described above, and intend to use the remaining net proceeds for working capital and general corporate purposes, including potentially debt reduction or other future acquisitions. More details regarding the 2022 Offering are set forth in Note 15 Subsequent Events and in the Current Report on Form 8-K filed by the Company on April 5, 2022.

On April 14, 2022, we issued incentive stock option awards to purchase an aggregate of 220,587 shares, with an exercise price of $6.08 per share, to seven members of our executive and management teams, subject to three-year vesting and in accordance with the terms and conditions of our 2015 Equity Incentive Plan. More details regarding the stock option awards are set forth in Note 15 Subsequent Events and in the Current Report on Form 8-K filed by the Company on April 20, 2022.

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.

Since the initial shutdowns, our level of customer engagement in Document Conversion has varied with the ebb and flow of the initial virus and the subsequent variants and outbreaks. In particular, we experienced slow-downs in workflow and corresponding revenues during the fourth quarter of 2021 and first quarter 2022 due to the Omicron variant outbreak. The State of Michigan, our largest customer, has yet to return a majority of its agencies and departments to on site work, resulting in a decrease in the volume of work orders for our Document Conversion segment. 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.

Looking ahead, the ongoing impact of COVID-19 on our business continues to evolve and be unpredictable. The majority of our Ohio employees continue 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. Our business, financial condition and results of operations could be affected by future outbreaks of COVID-19 generally or in our facilities. We are also likely to be impacted further by decreased customer demand and/or subscription terminations as a result of a reduction in customer spending (especially customers that are state and local governmental entities) or as a result of government-imposed restrictions on businesses. In particular, governmental budget reductions in the State of Michigan, our largest customer, may have a material adverse effect on our business. The extent of the impact will depend on a number of factors, including the duration and severity of the outbreak(s); 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 have and are likely to continue to 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 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, 2021. Due to all these factors and the other risks discussed in Part II, Item 1 of this Quarterly Report, and Part I, Item IA, "*Risk Factors*" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, 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

We faced challenges in the first quarter 2022 due to the Omicron variant of COVID-19 and general inflationary pressures. An increase in Document Management revenues helped to defray the effects of Omicron on our Document Conversion revenues, resulting in a modest increase in total revenues over the first quarter 2021.

Below are our key financial results for the first quarter 2022 (consolidated unless otherwise noted):

- Revenues were $2,703,512, representing revenue growth of 3% year over year.
- Cost of revenues was $1,071,675, an increase of 4% year over year.
- Operating expenses (excluding cost of revenues) were $1,539,362, an increase of 3% year over year.
- Income from operations was $92,475, a decrease of 16% year over year.
- Net loss was $20,126 with basic and diluted net income per share of ($0.01), compared to net income of $842,772 in Q1 2021.
    - Q1 2021 included other income of $845,083 for forgiveness of the PPP loan and interest.
    - Q1 2022 included $70,051 of transaction costs.
- Operating cash flow was $476,171, compared to $326,869 in Q1 2021.
- Capital expenditures were $56,043, compared to $231,699 in Q1 2021.
- As of March 31, 2022, we had 107 employees, including 12 part-time employees, compared to 100 employees as of March 31, 2021.

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:

	Three months ended March 31, 2022	Three months ended March 31, 2021
Revenues by segment		
Document Management	$ 914,950	$ 735,818
Document Conversion	1,788,562	1,899,401
Total revenues	$ 2,703,512	$ 2,635,219

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Revenues by revenue source		
Sale of software	$ 64,491	$ 9,594
Software as a service	431,221	323,726
Software maintenance services	336,602	340,446
Professional services	1,587,948	1,652,463
Storage and retrieval services	283,250	308,990
Total revenues	$ 2,703,512	$ 2,635,219

Our total revenues in the first quarter 2022 increased by $68,293, or 3%, over our first quarter 2021 revenues, driven primarily by continued strong performance in our Document Management segment being largely offset by short-term weakness in our Document Conversion segment, primarily due to the COVID-19 resurgence in Michigan and the corresponding temporary pause in demand. Professional services, our largest revenue line item, was down $64,515, or 4%, due to this resurgence. The increase in total revenues is primarily attributable to growth software as a service and software, partially offset by software maintenance services and storage and retrieval, as further described below.

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. The $54,897, or 572%, increase in these revenues in the first quarter 2022 compared to the first quarter 2021 was due to timing of large direct sales projects, with favorable comparisons to the very low project volume of the first quarter of 2021. We expect the volatility of this revenue line item to continue as the frequency of on-premise software solution sales decreases over time.

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 are reported as part of our Document Management segment. The $107,495, or 33%, increase in these revenues in the first quarter 2022 compared to the first quarter 2021 was primarily the result of most new customers choosing a cloud-based solution, plus expanded data storage, user seats, and hosting fees for existing customers. A portion of increase, approximately 6%, was attributed to existing software maintenance services customers migrating to our cloud solutions.

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 are reported as part of our Document Management segment. The $3,844, or 1%, decrease in these revenues in the first quarter 2022 compared to the first quarter 2021 was primarily driven by customers migrating their premise solution to our cloud solution, resulting maintenance and support agreements decreasing and software as a service increasing. Stand alone, this migration would have resulted in a decrease of 5%, however, these migrations and normal attrition were almost entirely offset by expansion of services with existing customers and price increases.

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. Of our professional services revenues during the first quarter 2022, $1,505,312 were derived from our Document Conversion operations and $82,636 were derived from our Document Management operations. Our overall professional services revenues decreased by $64,515, or 4%, in the first quarter 2022 compared to the first quarter 2021. The decrease is primarily due to the impact of the COVID-19 Omicron variant on our Michigan-based operations, with respect to both our staff and our customers, leading to a reduction in demand and time billed. Our smaller Ohio operations did not experience the same COVID-19 Omicron impact.

Storage and Retrieval Services Revenues

We provide document storage and retrieval services to customers, primarily in Michigan. Revenues from storage and retrieval services are reported as part of our Document Conversion segment. The $25,740, or 8%, decrease in storage and retrieval service revenues in the first quarter 2022 compared to the first quarter 2021 was the primarily result of unusually high incremental document destruction projects in 2021.

Costs of Revenues and Gross Profits

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Cost of revenues by segment		
Document Management	$ 180,044	$ 148,318
Document Conversion	891,631	881,997
Total cost of revenues	$ 1,071,675	$ 1,030,315

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Cost of revenues:		
Sale of software	$ 26,193	$ 4,237
Software as a service	91,249	76,340
Software maintenance services	18,300	24,388
Professional services	848,167	834,238
Storage and retrieval services	87,766	91,112
Total cost of revenues	$ 1,071,675	$ 1,030,315

Our total cost of revenues during the first quarter 2022 increased by $41,360, or 4%, over first quarter 2021 primarily following sales growth. Our cost of revenues for our Document Management segment increased by $31,726, or 21%, in the first quarter 2022 compared to the first quarter 2021 primarily due to increased sales revenues in that segment. Our cost of revenues for our Document Conversion segment increased by $9,634, or 1%, in the first quarter 2022 compared to the first quarter 2021, despite lower overall sales, due to unfavorable margin projects as well as the impact of inflation on entry level positions in the Document Conversion segment.

Our overall gross profit grew slightly in the first quarter 2022 from the first quarter 2021, up $26,933, or 2%. Our overall gross margin for the first quarter 2022 decreased to 60%, from 61% in the first quarter 2021, primarily a result of unfavorable margin projects and slightly growing costs in our Document Conversion segment. These impacts more than offset the strengthening of margins in our Document Management segment, as further discussed below.

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 first quarter 2022 increased by $21,956, or 518%, from the first quarter 2021, due to the increase in revenues and implementations. Our gross margin for software revenues increased to 59% in the first quarter 2022 from 56% in the first quarter 2021. This increase was driven by changes in the software solution mix, with slightly higher margin solutions in the first quarter 2022 favorably compared to solutions sold in 2021, and more in line with the solutions sold the previous year, in 2020. As with our software revenues, we expect the volatility of this line item to continue as the frequency of on-premise software solution sales decreases over time.

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 first quarter 2022 increased by $14,909, or 20%, over the first quarter 2021. This increase in the cost of SaaS was less than the increase in associated SaaS revenues, so our gross margin in the first quarter 2022 increased to 79% compared to 76% in the first quarter 2021, as a result of improved implementation efficiencies and continued 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 first quarter 2022 decreased by $6,088, or 25%, over the first quarter 2021 due to reduced support activity. As a result, our gross margin for software maintenance services increased to 95% in the first quarter 2022 compared to 93% in the first quarter 2021.

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 first quarter 2022 increased by $13,929, or 2%, over the first quarter 2021, primarily due to unfavorable margin projects as well as the impact of inflation on entry level positions in the Document Conversion segment. As a result, our gross margins professional services decreased to 47% in the first quarter 2022 compared to 50% in the first quarter 2021. Gross margins related to consulting and document conversion services may vary widely, depending upon the nature of the project and the amount of labor it takes to complete a project.

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. Cost of storage and retrieval services decreased by $3,346, or 4%, in the first quarter 2022 compared to the first quarter 2021, due to unusually high incremental document destruction projects in 2021, partially offset by an increase in wages and training new warehouse personnel. Gross margins for our storage and retrieval services, which exclude the cost of facilities rental, maintenance, and related overheads, decreased to 69% in the first quarter 2022 compared to 71% in the first quarter 2021 primarily as a result of inefficiencies in training new warehouse personnel.

Operating Expenses

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

	Three months ended March 31, 2022	Three months ended March 31, 2021
Operating expenses:		
General and administrative	$ 938,883	$ 1,039,026
Change in fair value of earnout liabilities	64,204	69,950
Transaction costs	70,051	-
Sales and marketing	352,114	290,311
Depreciation and amortization	114,110	94,884
Total operating expenses	$ 1,539,362	$ 1,494,171

General and Administrative Expenses

General and administrative expenses during the first quarter 2022 decreased by $100,143, or 10%, from the first quarter 2021, principally related to reduced bonuses for the first quarter, reduced third party professional fees, reduced travel, and also salary reductions from retirements and terminations. Our Document Conversion segment, in which our general and administrative expenses decreased to $537,620 in the first quarter 2022 from $552,516 in the first quarter 2021, was relatively flat at -3%, with reduced salaries and travel contributing. In our Document Management segment, our general and administrative expenses decreased to $401,263 in the first quarter 2022 compared to $486,511 in the first quarter 2021 due to decreases in bonuses, personnel expenses, and legal and accounting professional fees.

Change in Fair Value of Earnout Liabilities

Improvements in actual and forecast gross margin and revenue performance drove an adjustment in fair value of during the first quarter 2022 of $53,427 and $10,777 for Graphic Sciences and CEO, respectively, totaling $64,204 for 2022. The fair value adjustments were driven by updated assumptions to reflect the improved performance of both acquisitions against their threshold targets and a reduction of pandemic-related uncertainty. 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.

Significant Transaction Expenses

The significant transactions expenses during the first quarter 2022 were comprised of legal and consulting fees in connection with our acquisition of Yellow Folder, consummated on April 1, 2022. There were no significant transaction expenses during the first quarter 2021.

Sales and Marketing Expenses

Sales and marketing expenses during the first quarter 2022 increased by $61,803, or 21%, over the first quarter 2021. This increase was driven by the expansion of the sales and marketing teams during the first quarter 2022 compared to the first quarter 2021.

Depreciation and Amortization

Depreciation and amortization during the first quarter 2022 increased by $19,226, or 20%, over the first quarter 2021 as a result of additional assets acquired later in 2021, primarily the warehouse racking used by the Document Conversion segment.

Other Items of Income and Expense

Gain on Extinguishment of Debt

The $845,083 gain on extinguishment of debt in the first quarter 2021 reflects the full forgiveness of our PPP Note principal and interest by the SBA in January 2021.

Interest Expense, Net

Interest expense was $112,601 in the first quarter 2022 as compared to $113,044 during the first quarter 2021, representing a decrease of $443, or essentially flat, as expected, as there were no changes in the underlying notes payable.

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, and including our private offering in April 2022, discussed in Recent Developments, we have raised a total of approximately $26 million in cash through issuances of debt and equity securities. As of March 31, 2022, we had $2,172,758 in cash and cash equivalents, net working capital deficit of $1,517,958, and an accumulated deficit of approximately $21.7 million. The net working capital deficit is driven by current notes payable amounting to $1,807,128, net of unamortized debt discount and debt issuance costs.

In 2022, we engaged in several actions that significantly improved our liquidity and cash flows, including, on April 1, 2022:

- acquiring the positive cash flow generated by Yellow Folder,
- receiving aggregate gross proceeds of approximately $5.7 million from the private placement of our common stock (all which was used to acquire Yellow Folder), and
- receiving approximately $3.0 million in proceeds from the issuance of 12% subordinated promissory notes due March 31, 2025, which we refer to as the 2022 notes (some of which was used to acquire Yellow Folder).

Of our existing debt, $2 million is due February 29, 2023 and approximately $3 million is due March 31, 2025. We also may have earnout payments of up to a maximum of $1,018,333 in the second quarter of 2022 and $833,333 in the second quarter of 2023. Our operating cash flow alone may be insufficient to meet these obligations in full in the first and second quarters of 2023. We have positive operating cash flow, and we believe we could seek additional debt or equity financing on acceptable terms. We believe that our balance sheet and financial statements would support a full or partial refinancing or other appropriate modification of the current promissory notes, such as an extension or conversion to equity. We are confident in our ability to prudently manage our current debt on terms acceptable to us.

Our ability to meet our capital needs in the short term will depend on many factors, including maintaining and enhancing our operating cash flow, successfully managing the transition of our recent acquisition of Yellow Folder, successfully retaining and growing our client base in the midst of general economic uncertainty, and managing any 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 and potential financing options, 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.

Our ability to meet our capital needs further into the future will depend primarily on strategically managing the business and successfully retaining our client base.

Indebtedness

As of March 31, 2022, our 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 7 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report for further information on the 2020 notes. In addition, as of April 1, 2022, we issued additional long-term indebtedness consisting of approximately $3 million as part of the 2022 notes. For more information on the 2022 notes, see Note 15 to our condensed consolidated financial statements regarding subsequent events.

Capital Expenditures

There were no material commitments for capital expenditures at March 31, 2021.

Cash Provided by Operating Activities

Net cash provided by operating activities during the first quarter 2022 was $476,171, primarily attributable to the net loss adjusted for non-cash expenses of $463,783, a decrease in operating assets of $171,743 and a decrease in operating liabilities of $139,229. Net cash provided by operating activities during the first quarter 2021 was $326,869, primarily attributable to the net income adjusted for a gain, net of non-cash expenses, of $415,624, an increase in operating assets of $148,540 and an increase in operating liabilities of $48,261.

Cash Used by Investing Activities

Net cash used in investing activities in the first quarter 2022 was $56,043, primarily related to purchases of property and equipment. Net cash used in investing activities in the first quarter 2021 was $231,699, primarily related to purchases of property and equipment, including construction in progress.

Cash Provided by Financing Activities

There were no financing activities during the first quarter 2022 or 2021. The private placement of our common stock and issuance of promissory notes payable occurred on April 1, 2022, and these events are discussed further in Note 15 to our condensed consolidated financial statements.

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, 2021. There were no material changes to our critical accounting policies and estimates during the first quarter 2022.

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 March 31, 2022, 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. 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, 2021.

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

There have been no securities sold by the registrant during the quarterly period covered by this Quarterly Report on Form 10-Q that have not previously been disclosed on a Current Report on Form 8-K, except as set forth below.

On January 6, 2022, the Company issued 8,097 shares of restricted common stock to the non-employee directors of the Company as part of an annual compensation plan for directors. The grant of shares was not subject to vesting and was made in reliance on the exemption from registration available in Section 4(a)(2) of the Securities Act of 1933 (the "Securities Act") for transactions by an issuer not involving any public offering.

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: May 16, 2022

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

Dated: May 16, 2022

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

Exhibit 31.1

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

I, James F. DeSocio, certify that:

1. I have reviewed this 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: May 16, 2022

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

Exhibit 31.2

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

I, Joseph D. Spain, certify that:

1. I have reviewed this 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: May 16, 2022

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

Exhibit 32.1

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, 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: May 16, 2022

/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.

Exhibit 32.2

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2022, 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: May 16, 2022

/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.