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, 2023

☐ 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: 001-41495

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 the 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**
Common Stock, $0.001 par value	INLX	NYSE American

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 11, 2023, there were 4,073,757 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, 2023
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated into this report by reference contain forward-looking statements. In addition, from time to time we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical facts, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words "may," "could," "should," "would," "will," "project," "intend," "continue," "believe," "anticipate," "estimate," "forecast," "expect," "plan," "potential," "opportunity," "scheduled," "goal," "target," and "future," variations of such words, and other comparable terminology and similar expressions and references to future periods are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, among other things, statements about the following:

- the effects on our business, financial condition, and results of operations of current and future economic, business, market and regulatory conditions, including the current global inflation, economic downturn, and other 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 prospects, including our future business, revenues, recurring 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;
- 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, 2022, filed on March 27, 2023, 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, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash	$ 1,419,138	$ 2,696,481
Accounts receivable, net	1,182,523	1,121,083
Accounts receivable, unbilled	887,742	596,410
Parts and supplies, net	81,455	73,221
Contract assets	80,577	80,378
Prepaid expenses and other current assets	327,198	325,466
Total current assets	3,978,633	4,893,039
Property and equipment, net	1,029,127	1,068,706
Right of use assets, operating	3,070,782	3,200,191
Right of use asset, finance	147,574	154,282
Intangible assets, net	4,292,069	4,419,646
Goodwill	5,789,821	5,789,821
Other assets	491,464	417,457
Total assets	$ 18,799,470	$ 19,943,142
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 368,797	$ 370,300
Accrued compensation	604,260	411,683
Accrued expenses	153,677	114,902
Lease liabilities, operating - current	708,573	692,074
Lease liability, finance - current	22,918	22,493
Deferred revenues	2,182,276	2,754,064
Earnout liabilities - current	-	700,000
Notes payable - current	696,459	936,966
Total current liabilities	4,736,960	6,002,482
Long-term liabilities:		
Notes payable - net of current portion	2,116,087	2,085,035
Notes payable - related party	536,964	529,084
Lease liabilities, operating - net of current portion	2,482,692	2,624,608
Lease liability, finance - net of current portion	127,240	133,131
Total long-term liabilities	5,262,983	5,371,858
Total liabilities	9,999,943	11,374,340
Stockholders' equity:		
Common stock, $0.001 par value, 25,000,000 shares authorized; 4,073,757 shares issued and outstanding at March 31, 2023 and December 31, 2022	4,074	4,074
Additional paid-in capital	30,297,179	30,179,017
Accumulated deficit	(21,501,726)	(21,614,289)
Total stockholders' equity	8,799,527	8,568,802
Total liabilities and stockholders' equity	$ 18,799,470	$ 19,943,142

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, 2023	For the Three Months Ended March 31, 2022
Revenues:		
Sale of software	$ 15,293	$ 64,491
Software as a service	1,238,432	431,221
Software maintenance services	349,542	336,602
Professional services	2,299,289	1,587,948
Storage and retrieval services	284,277	283,250
Total revenues	4,186,833	2,703,512
Cost of revenues:		
Sale of software	8,181	26,193
Software as a service	220,640	91,249
Software maintenance services	16,716	18,300
Professional services	1,187,116	848,167
Storage and retrieval services	108,341	87,766
Total cost of revenues	1,540,994	1,071,675
Gross profit	2,645,839	1,631,837
Operating expenses:		
General and administrative	1,554,611	935,691
Change in fair value of earnout liabilities	-	64,204
Transaction costs	-	70,051
Sales and marketing	579,511	352,114
Depreciation and amortization	227,718	117,302
Total operating expenses	2,361,840	1,539,362
Income from operations	283,999	92,475
Interest expense	(171,436)	(112,601)
Net income (loss)	$ 112,563	$ (20,126)
Basic net income (loss) per share:	$ 0.03	$ (0.01)
Diluted net income per (loss) share:	$ 0.03	$ (0.01)
Weighted average number of common shares outstanding - basic	4,073,757	2,830,899
Weighted average number of common shares outstanding - diluted	4,695,106	2,830,899

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, 2023 and 2022
(unaudited)

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
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
Balance, December 31, 2022	4,073,757	$ 4,074	$ 30,179,017	$ (21,614,289)	$ 8,568,802
Stock Option Compensation	-	-	118,162	-	118,162
Net Income	-	-	-	112,563	112,563
Balance, March 31, 2023	4,073,757	$ 4,074	$ 30,297,179	$ (21,501,726)	$ 8,799,527

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

	For the Three Months Ended March 31,	
	2023	2022
Cash flows from operating activities:		
Net income (loss)	$ 112,563	$ (20,126)
Adjustments to reconcile net income (loss) to net cash used in / provided by operating activities:		
Depreciation and amortization	227,718	117,302
Bad debt expense (recovery)	20,102	(2,097)
Amortization of deferred financing costs	49,997	25,935
Amortization of debt discount	11,378	26,666
Amortization of right of use asset, financing	6,709	-
Stock issued for services	-	57,500
Stock option compensation	118,162	22,960
Change in fair value of earnout liabilities	-	64,204
Changes in operating assets and liabilities:		
Accounts receivable	(81,542)	279,757
Accounts receivable, unbilled	(291,332)	(29,204)
Parts and supplies	(8,234)	10,978
Prepaid expenses and other current assets	(1,931)	(63,583)
Accounts payable and accrued expenses	229,849	85,739
Operating lease assets and liabilities, net	3,992	8,286
Deferred compensation	-	(20,166)
Deferred revenues	(571,788)	(58,583)
Total adjustments	(286,920)	525,694
Net cash used in / provided by operating activities	(174,357)	505,568
Cash flows from investing activities:		
Capitalization of internal use software	(112,208)	(29,397)
Purchases of property and equipment	(22,361)	(56,043)
Net cash used in investing activities	(134,569)	(85,440)
Cash flows from financing activities:		
Payment of earnout liabilities	(700,000)	-
Principal payments on financing lease liability	(5,467)	-
Repayment of notes payable	(262,950)	-
Net cash used in financing activities	(968,417)	-
Net (decrease) increase in cash	(1,277,343)	420,128
Cash - beginning of period	2,696,481	1,752,630
Cash - end of period	$ 1,419,138	$ 2,172,758
		$ 2,172,758
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 116,110	$ 60,000
Cash paid during the period for income taxes	$ 2,499	$ 1,303

See Notes to these condensed consolidated financial statements

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

1. Business Organization and Nature of Operations

Intellinetics, Inc., formerly known as GlobalWise Investments, Inc., 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 Yellow Folder, LLC (“Yellow Folder”) asset acquisition in April 2022 and 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, 2023 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, 2022 filed with the SEC filed on March 27, 2023.

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.

Concentrations of Credit Risk

We maintain our cash with high credit quality financial institutions. At times, our cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

We do not generally require collateral or other security to support customer receivables; however, we may require customers to provide retainers, up-front deposits or irrevocable letters-of-credit when considered necessary to mitigate credit risks. We have established an allowance for credit losses based upon facts surrounding the credit risk of specific customers and expected future collections. Credit losses have been within management's expectations. At March 31, 2023 and December 31, 2022, our allowance for credit losses was $107,341 and $88,331, respectively.

Revenue Recognition

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, 2022 filed with the SEC filed on March 27, 2023.

Contract balances

The following tables present changes in our contract assets during the three months ended March 31, 2023 and 2022:

	Balance at Beginning of Period	Billings	Payments Received	Balance at End of Period
Three months ended March 31, 2023				
Accounts receivable	$ 1,121,083	$ 3,341,583	$ (3,280,144)	$ 1,182,523
Three months ended March 31, 2022				
Accounts receivable	$ 1,176,059	$ 2,622,808	$ (2,900,468)	$ 898,400

	Balance at Beginning of Period	Revenue Recognized in Advance of Billings	Billings	Balance at End of Period
Three months ended March 31, 2023				
Accounts receivable, unbilled	$ 596,410	$ 1,336,851	$ (1,045,519)	$ 887,742
Three months ended March 31, 2022				
Accounts receivable, unbilled	$ 444,782	$ 700,869	$ (671,665)	$ 473,986

	Balance at Beginning of Period	Commissions Paid	Commissions Recognized	Balance at End of Period
Three months ended March 31, 2023				
Other contract assets	$ 80,378	$ 27,792	$ (27,593)	$ 80,577
Three months ended March 31, 2022				
Other contract assets	$ 78,556	$ 22,136	$ (14,089)	$ 86,603

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, 2023, 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 $54,899. As of December 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 $74,448. 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, 2023 and 2022:

	Balance at Beginning of Period	Billings	Recognized Revenue	Balance at End of Period
Three months ended March 31, 2023				
Contract liabilities: deferred revenue	$ 2,754,064	$ 1,146,380	$ (1,718,168)	$ 2,182,276
Three months ended March 31, 2022				
Contract liabilities: deferred revenue	$ 1,194,649	$ 984,117	$ (1,042,700)	$ 1,136,066

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 $112,208 and $29,397 were capitalized during the first quarter 2023 and 2022, respectively.

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, 2023 and December 31, 2022, our condensed consolidated balance sheets included $476,680 and $402,673, respectively, in other long-term assets.

For the three months ended March 31, 2023 and 2022, our expensed software development costs were $131,743 and $62,751, respectively.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13 "Credit Losses - Measurement of Credit Losses on Financial Instruments." ASU No. 2016-13 significantly changes how entities measure credit losses for most financial assets, including accounts receivable and held-to-maturity marketable securities, by replacing today's "incurred loss" approach with an "expected loss" model under which allowances will be recognized based on expected rather than incurred losses. ASU No. 2016-13 became effective for us in the first quarter of 2023. The adoption of ASU No. 2016-13 resulted in a reduction in the allowance for doubtful accounts of $11,662 and is reflected in the accompanying condensed consolidated financial statements.

Advertising

We expense the cost of advertising as incurred. Advertising expense for the three months ended March 31, 2023 and 2022 amounted to $6,120 and $448, respectively.

Earnings (Loss) Per Share

Basic income or loss per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted income or loss per share is computed by dividing net income or loss by the diluted weighted average number of shares of common stock outstanding during the period. The diluted weighted average number of shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive, including warrants or options which are out-of-the-money and for those periods with a net loss.

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, 2023 and 2022 because to do so would be anti-dilutive. For the first quarter 2023, certain options and warrants were in-the-money and others were not. The three months ended March 31, 2023 reported net income, while the three months ended March 31, 2022 reported a net loss. For the first quarter 2022, the numerator and the denominator used in computing both basic and diluted net loss per share 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, 2023 and December 31, 2022, 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 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 immaterial 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 businesses 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, 2023	Three months ended March 31, 2022
Revenues		
Document Management	$ 1,769,483	$ 914,950
Document Conversion	2,417,350	1,788,562
Total revenues	$ 4,186,833	$ 2,703,512
Gross profit		
Document Management	$ 1,483,108	$ 734,906
Document Conversion	1,162,731	896,931
Total gross profit	$ 2,645,839	$ 1,631,837
Capital additions, net		
Document Management	$ 116,041	$ 31,084
Document Conversion	18,528	54,356
Total capital additions, net	$ 134,569	$ 85,440

	March 31, 2023	December 31, 2022
Goodwill		
Document Management	$ 3,989,645	$ 3,989,645
Document Conversion	1,800,176	1,800,176
Total goodwill	$ 5,789,821	$ 5,789,821

	March 31, 2023	December 31, 2022
Total assets		
Document Management	$ 9,707,317	$ 10,284,143
Document Conversion	9,092,153	9,658,959
Total assets	$ 18,799,470	$ 19,943,142

Statement of Cash Flows

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

Reclassifications

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

4. Business Acquisitions

On April 1, 2022, we entered into an asset purchase agreement to acquire substantially all of the assets of Yellow Folder. The acquisition was accounted for in accordance with GAAP and was made to expand our market share in the digital transformation industry and due to synergies of product lines and services between the Companies.

The purchase price has been preliminarily allocated to assets acquired and liabilities assumed based on the estimated fair value of such assets and liabilities at the date of acquisitions as follows:

Assets acquired:		
Accounts receivable	$	68,380
Prepaid expenses		38,913
Property and equipment		30,018
Intangible assets (see Note 5)		3,888,000
		4,025,311
Liabilities assumed:		
Accounts payable		36,446
Deferred revenue		1,072,530
		1,108,976
Total identifiable net assets		2,916,335
Purchase price		6,383,269
Goodwill - Excess of purchase price over fair value of net assets acquired	$	3,466,934

The purchase price of $6,383,269 was paid in cash. Goodwill in the amount of $3,466,934 was recognized in the acquisition of Yellow Folder and is attributable to the cash flows of the business derived from our potential to outperform the market due to its existing relationship and other synergies created within the Company.

The following unaudited pro forma information presents a summary of the condensed consolidated results of operations for the Company as if the acquisition of Yellow Folder had occurred on January 1, 2022.

	For the three months ended			
	(unaudited) March 31, 2023		(unaudited) March 31, 2022	
Total revenues	$	4,186,833	$	3,481,413
Net income	$	112,563	$	14,440
Basic net income per share	$	0.03	$	0.00
Diluted net income per share	$	0.03	$	0.00

The unaudited pro forma condensed consolidated results are based on our historical financial statements and those of Yellow Folder and do not necessarily indicate the results of operations that would have resulted had the acquisition actually been completed at the beginning of the applicable period presented. The pro forma financial information assumes that the companies were combined as of January 1, 2022.

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

		For the three months ended March 31, 2023
Yellow Folder:		
Total revenues	$	874,562
Net income	$	185,702

5. Intangible Assets, Net

At March 31, 2023, intangible assets consisted of the following:

	Estimated Useful Life		Costs		Accumulated Amortization		Net
Trade names	10 years	$	297,000	$	(54,492)	$	242,508
Proprietary technology	10 years		861,000		(86,100)		774,900
Customer relationships	5-15 years		4,091,000		(816,339)		3,274,661
		$	5,249,000	$	(956,931)	$	4,292,069

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

	Estimated Useful Life		Costs		Accumulated Amortization		Net
Trade names	10 years	$	297,000	$	(47,067)	$	249,933
Proprietary technology	10 years		861,000		(64,575)		796,425
Customer relationships	5-15 years		4,091,000		(717,712)		3,373,288
		$	5,249,000	$	(829,354)	$	4,419,646

Amortization expense for the three months ended March 31, 2023 and 2022 amounted to $127,577 and $54,119, respectively. The following table represents future amortization expense for intangible assets subject to amortization.

For the Twelve Months Ending March 31,		Amount
2024	$	510,308
2025		510,308
2026		473,125
2027		326,108
2028		324,410
Thereafter		2,147,810
	$	4,292,069

6. Fair Value Measurements

We paid our final earnout liability in January 2023 and as of March 31, 2023, we have no earnout liabilities remaining. As of December 31, 2022 we had earnout liabilities related to one of our two 2020 acquisitions which were 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 were considered to be Level 3 inputs due to the lack of relevant market activity and significant management judgment. Key unobservable inputs included revenue growth rates, which ranged from 0% to 7%, and volatility rates, which were 20% for gross profits.

The following table provides a summary of the changes in fair value of the earnout liabilities for the three months ended March 31, 2023 and 2022:

		March 31, 2023
Fair value at December 31, 2022	$	700,000
Payments		(700,000)
Fair value at March 31, 2023	$	-

		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

The fair values of earnout liabilities amounts owed were recorded in current liabilities in our condensed consolidated balance sheet as of December 31, 2022. Changes in fair value are recorded in change in fair value of earnout liabilities in our condensed consolidated statements of operations.

7. Property and Equipment

Property and equipment are comprised of the following:

		March 31, 2023		December 31, 2022
Computer hardware and purchased software	$	1,601,116	$	1,578,756
Leasehold improvements		395,919		395,918
Furniture and fixtures		71,325		71,325
		2,068,360		2,062,895
Less: accumulated depreciation		(1,039,233)		(977,293)
Property and equipment, net	$	1,029,127	$	1,068,706

Total depreciation expense on our property and equipment for the three months ended March 31, 2023 and 2022 amounted to $61,939 and $59,991, respectively.

8. Notes Payable

Summary of Notes Payable to Unrelated Parties

The table below summarizes all notes payable at March 31, 2023 and December 31, 2022, respectively with the exception of related party notes disclosed in Note 9 “Notes Payable - Related Parties.”

	March 31, 2023	December 31, 2022
2022 Unrelated Notes	$ 2,364,500	$ 2,364,500
2020 Notes	717,500	980,450
Total notes payable	$ 3,082,000	$ 3,344,950
Less unamortized debt issuance costs	(258,787)	(300,904)
Less unamortized debt discount	(10,667)	(22,045)
Less current portion, net	(696,459)	(936,966)
Long-term portion of notes payable	$ 2,116,087	$ 2,085,035

Future minimum principal payments of the Notes Payable to Unrelated Parties are as follows:

As of March 31,	Amount
2024	$ 717,500
2025	2,364,500
Total	$ 3,082,000

As of March 31, 2023 and December 31, 2022, accrued interest for these notes payable with the exception of the related party notes in Note 9, “Notes Payable - Related Parties,” was $0. As of March 31, 2023 and December 31, 2022, unamortized debt issuance costs and unamortized debt discount were reflected within short and long term liabilities on the condensed consolidated balance sheets, netted with the corresponding notes payable balance.

With respect to all notes outstanding (other than the notes to related parties), interest expense, including the amortization of debt issuance costs and debt discount for the three months ended March 31, 2023 and 2022 was $151,605 and $112,601, respectively.

2022 Unrelated Notes

On April 1, 2022, we sold $2,364,500 in 12% Subordinated Notes (“2022 Unrelated Notes”) to unrelated accredited investors. The entire outstanding principal and unpaid interest of the 2022 Notes are due and payable on March 30, 2025. Interest on the 2022 Unrelated Notes accrues at the rate of 12% per annum, payable quarterly in cash, beginning on September 30, 2022. 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 acquisition of Yellow Folder and the remaining net proceeds for working capital and general corporate purposes.

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 unpaid interest of the 2020 Notes were initially due and payable on February 28, 2023. On December 1, 2022, we paid the note holders an amount totaling $1,019,550 as a prepayment of principal. On February 28, 2023, we paid the note holders an amount totaling $262,950 as a payment of principal. In December 2022, a majority of the note holders signed an amendment to extend the maturity date for $717,500 of the remaining 2020 Notes to August 31, 2023. Interest on the 2020 Notes accrues at the rate of 12% per annum, payable quarterly in cash, beginning on June 30, 2021. 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 $11,378 and $26,666, respectively, for the three months ended March 31, 2023 and 2022.

9. Notes Payable - Related Parties

Summary of Notes Payable to Related Parties

The table below summarizes all notes payable to related parties at March 31, 2023 and December 31, 2022:

	March 31, 2023	December 31, 2022
Notes payable – "2022 Related Note"	$ 600,000	$ 600,000
Less unamortized debt issuance costs	(63,036)	(70,916)
Long-term portion of notes payable	$ 536,964	$ 529,084

Future minimum principal payments of the 2022 Notes to related parties are as follows:

As of March 31,	Amount
2025	$ 600,000
Total	$ 600,000

As of March 31, 2023 and December 31, 2022, accrued interest for these notes payable – related parties were $0. As of March 31, 2023 and December 31, 2022, unamortized deferred financing costs were reflected within long term liabilities on the consolidated balance sheets, netted with the corresponding notes payable balance.

With respect to all notes payable – related parties outstanding, interest expense, including the amortization of debt issuance costs, for the three months ended March 31, 2023 and 2022 and was $25,879 and $0, respectively.

2022 Related Note

On April 1, 2022, we issued a 12% Subordinated Note with a principal amount of $600,000 (the "2022 Related Note") to Robert Taglich (holding more than 5% beneficial interest in the Company's Shares). The entire outstanding principal and unpaid interest of the 2022 Related Note is due and payable on March 30, 2025. Interest on the 2022 Related Note accrues at the rate of 12% per annum, payable quarterly in cash, beginning on September 30, 2022. 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 acquisition of Yellow Folder and the remaining net proceeds for working capital and general corporate purposes.

10. Deferred Compensation

Pursuant to an employment agreement, we had accrued incentive cash compensation for one of our founders which was fully paid as of December 31, 2022. 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.

11. 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.

Operating Leases

On January 1, 2010, we entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio, used for our corporate headquarters, Document Conversion operations, and a small portion of our Document Management operations. 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 $5,100, with gradually higher annual increases each January up to $5,850 for the final year.

We lease 36,000 square feet of space in Madison Heights, Michigan as the main facility for our Document Conversion operations. 20,000 square feet is used for records storage services, with the remainder of the space used for production, sales, and administration. The monthly rental payment is $43,185, 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.

We also lease a separate 37,000 square foot building in Sterling Heights, Michigan for our Document Conversion operations, with most of the space used for document storage, except approximately 5,000 square feet, which is used for production. The monthly rental payment is $21,072, 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.

We lease office space in Traverse City, Michigan for Document Conversion production. The monthly rental payment is $4,500, with a lease term continuing until January 31, 2024.

We also lease and use vehicles for logistics pertaining to our Document Conversion segment, primarily pickup and delivery of client materials, including storage and retrieval operations. The monthly rental payments for these vehicles total $5,429, with lease terms continuing until September 30, 2028.

We also lease and use an additional temporary office space in Madison Heights for our Document Conversion operations, 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 our leases:

For the twelve months ending March 31,	Finance Lease	Operating Leases
2024	$ 33,195	$ 944,783
2025	33,195	890,685
2026	33,195	899,991
2027	33,195	578,184
2028	33,195	358,282
Thereafter	16,598	76,821
	$ 182,573	$ 3,748,746

The following table summarizes the components of lease expense:

For the three months ending March 31,	2023	2022
Finance lease expense:		
Amortization of ROU asset	$ 6,709	$ -
Interest on lease liabilities	2,832	-
Operating lease expense	237,449	238,487
Short-term lease expense	4,814	4,814

The following tables set forth additional information pertaining to our leases:

For the three months ending March 31,	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance lease (interest)	$ 2,832	$ -
Financing cash flows from finance lease (principal)	5,467	-
Operating cash flows from operating leases	170,759	151,032
Weighted average remaining lease term – finance lease	5.5 years	-
Weighted average remaining lease term – operating leases	4.2 years	5.1 years
Discount rate – finance lease	7.50%	-
Weighted average discount rate – operating leases	6.97%	7.01%

	March 31, 2023	December 31, 2022
Operating leases:		
Right-of-use assets, operating	$ 3,070,782	$ 3,200,191
Lease liabilities, operating – current	708,573	692,074
Lease liabilities, operating – net of current	2,482,692	2,624,608
Total operating lease liabilities	$ 3,191,265	$ 3,316,682
Finance leases:		
Right-of-use asset, finance	$ 160,990	$ 160,990
Accumulated amortization	(13,416)	(6,708)
Right-of-use asset, finance, net	$ 147,574	$ 154,282
Lease liability, finance – current	$ 22,918	$ 22,493
Lease liability, finance – net of current	127,240	133,131
Total finance lease liability	$ 150,158	$ 155,624

12. Stockholders' Equity

Common Stock

As of March 31, 2023, 4,073,757 shares of common stock were issued and outstanding, 255,958 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").

Private Placement 2022

On April 1, 2022, we entered into a 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, for aggregate gross proceeds of $8,705,256 for the combined private placement. We used a portion of the net proceeds of the offering to finance the acquisition of Yellow Folder, and used the remaining net proceeds for working capital and general corporate purposes, including debt reduction.

We retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement. In compensation, we 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. Debt issuance costs of $165,406 were recorded for the issuance of the April 1, 2022 warrants, utilizing the Black-Scholes valuation model. The fair value of warrants issued was determined to be $3.91. Debt issuance costs of $47,607 were recorded for the extension of the exercise period for existing unexpired warrants to March 30, 2027, utilizing the Black-Scholes valuation model. The fair value of warrants affected was determined to be from $3.30 to $3.97. Underwriting paid-in-capital charges of $492,181 and debt issuance costs of $254,160 was recorded for the placement agent cash fee and other related legal fees. Amortization of the debt issuance costs for this private placement offering was recorded at $38,931, for the three months ended March 31, 2023.

Private Placement 2020

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. Amortization of the debt issuance costs for this private placement offering was recorded at $11,065 and $25,935 for the three months ended March 31, 2023 and 2022.

Warrants

The following sets forth the warrants to purchase our common stock that were outstanding as of March 31, 2023:

- Warrants to purchase 3,000 shares of common stock at an exercise price of $15.00 per share exercisable until March 30, 2027, 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 March 30, 2027, 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 March 30, 2027, 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 30, 2027, issued to the placement agent in connection with private placements of our promissory notes.
- Warrants to purchase 124,258 shares of common stock at an exercise price of $4.62 per share exercisable until March 30, 2027, issued to the placement agent in connection with private placements of our promissory notes.

No warrants were issued during the three months ended March 31, 2023 or 2022.

13. 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, we issued 8,097 shares 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.

Stock Options

We did not make any stock option grants during the three months ended March 31, 2023 or 2022.

A summary of stock option activity during the three months ended March 31, 2023 and 2022 is as follows:

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2023	365,447	$ 5.89	8 years	$ 19,200
Forfeited	(5,000)	4.00		
Outstanding at March 31, 2023	360,447	$ 5.92	8 years	$ 19,200
Exercisable at March 31, 2023	92,860	$ 6.50	7 years	$ 19,200

	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

During the three months ended March 31, 2023 and 2022, stock-based compensation for options was $118,162 and $22,960, respectively.

As of March 31, 2023 and December 31, 2022, there was $897,697 and $1,019,140, 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, 2023 and 2022 was $10,238.

14. 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, 2023 and 2022, our largest customer, the State of Michigan, accounted for 34% and 40%, respectively, of our total revenues for each period, and our second largest customer, Rocket Mortgage, accounted for 10% of our total revenues for each period.

For the three months ended March 31, 2023 and 2022, government contracts, including K-12 education, represented approximately 72% and 66% of our net revenues, respectively. A significant portion of our sales to resellers represent ultimate sales to government agencies.

As of March 31, 2023, accounts receivable concentrations from our two largest customers were 43% and 6% of gross accounts receivable, respectively by customer. As of December 31, 2022, accounts receivable concentrations from our two largest customers were 44% and 7% of gross accounts receivable, respectively by customer. Accounts receivable balances from our two largest customers at March 31, 2023 have been partially collected.

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, 2022. 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, 2023 as the first quarter 2023, and to the three month period ended March 31, 2022 as the first quarter 2022.

Company Overview

We are a document services and software solutions company serving both the small-to-medium business and governmental sectors with their digital transformation and process automation initiatives. On April 1, 2022, we made a significant business acquisition that has significantly impacted our financial operations and grown our business operations. For further information about this acquisition, please see Note 4 to our condensed consolidated financial statements included in Item 1, Part I of this Quarterly Report.

Our digital transformation products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes the Yellow Folder, LLC ("Yellow Folder") asset acquisition in April 2022, 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 who need them by making those documents easy to find and access, while also being secure and compliant with the customers' audit requirements. Solutions are sold both directly to end-users and through resellers.

Our customers use our software by one of two methods: purchasing our software and installing it onto their own equipment, which we refer to as a "premise" model, or licensing and accessing our platform via the Internet, which we refer to as a "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, Expedient, and Evocative, 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 2023 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, 2022.

Executive Overview of Results

The biggest factor in the changes in our results of operations during the first quarter 2023 compared to 2022 was our acquisition of Yellow Folder on April 1, 2022. Our results for the first quarter 2023 include the results of Yellow Folder operations for the three quarters. Our first quarter 2022 results do not include Yellow Folder operations. Without Yellow Folder, revenues were up $608,759, or 23%, primarily driven by renewed professional services as well as strength in software as a service, which, excluding Yellow Folder, grew 18% year over year for the first quarter 2023. Our strong professional services and software as a service performance was partially offset by weaknesses in sales of software, which is increasingly inconsistent with reduced sales of on-premise software and lingering softer demand for the transactional portion of our storage and retrieval services from a significant customer in the home mortgage lending industry.

Below are our key financial results for the first quarter 2023 (consolidated unless otherwise noted):

- Revenues were $4,186,833, representing revenue growth of 55% year over year.
- Cost of revenues was $1,540,994, an increase of 44% year over year.
- Operating expenses (excluding cost of revenues) were $2,361,840, an increase of 53% year over year.
- Income from operations was $283,999, an increase of 207% year over year.
- Net income was $112,563 with basic and diluted net income per share of $0.03, compared to a net loss of $20,126 with basic and diluted net income per share of ($0.01) in the first quarter 2022.
  - Q1 2022 included $64,204 of change in fair value of earnout liabilities costs and $70,051 of transaction costs.
- Net cash used in operating activities was $174,357, driven primarily by a $571,788 reduction in deferred revenues, compared to $505,568 provided by operations in the first quarter 2022.
- Capital expenditures were $134,569, compared to $85,440 in the first quarter 2022.
- As of March 31, 2023, we had 167 employees, including 28 part-time employees, compared to 107 employees as of March 31, 2022.

Financial Impact of Current Economic Conditions

Our overall performance depends on economic conditions, including the current inflationary environment and the widespread expectation of near-term global recession.

Employee wages, our largest expense, have recently increased due to wage inflation. These increased labor costs have slightly decreased our profit margin over 2022 and into 2023, but we continue to mitigate this by appropriately increasing customer renewal rates whenever we have the contractual ability to do so. More significantly, general wage inflation in the market has resulted in a slower hiring process as we grew our staff during 2022 and 2023, particularly for our Document Conversion segment. These hiring and staffing challenges slow our ability to complete project-based work backlog and reduce our revenue. However, we ended the first quarter 2023 with more staff than 2022, and have continued to hire more staff as of the date of this report. We anticipate that the inflationary effect on our wages has stabilized.

Other volatility, particularly from global supply chain disruptions, has had and are expected to continue to have a minimal impact on us as we consume relatively little in raw materials. A global recession may affect our customers' and potential customers' budgets for technology procurement, but as of the date of this report, we have not experienced diminished customer demand due to adverse economic conditions. Absent global economic disruptions, and based on the current trend of our business operations and our continued focus on strategic initiatives to grow our customer base, we believe in the strength of our brand and that our focus on our strategic priorities will deliver consistent growth.

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 economic conditions, 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, 2022. 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, 2022, 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.

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, 2023	Three months ended March 31, 2022
Revenues		
Document Management	$ 1,769,483	$ 914,950
Document Conversion	2,417,350	1,788,562
Total revenues	$ 4,186,833	$ 2,703,512
Gross profit		
Document Management	$ 1,483,108	$ 734,906
Document Conversion	1,162,731	896,931
Total gross profit	$ 2,645,839	$ 1,631,837

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Revenues by revenue source		
Sale of software	$ 15,293	$ 64,491
Software as a service	1,238,432	431,221
Software maintenance services	349,542	336,602
Professional services	2,299,289	1,587,948
Storage and retrieval services	284,277	283,250
Total revenues	$ 4,186,833	$ 2,703,512

Our total revenues in the first quarter 2023 increased by $1,483,321, or 55%, over our first quarter 2022 revenues, driven primarily by the acquisition of Yellow Folder. Yellow Folder added $874,562 revenue for the first quarter 2023. The remaining net increase of 23% was primarily driven by renewed professional services as well as strength in software as a service, which, excluding Yellow Folder, grew 18% year over year for the first quarter 2023. Our strong professional services and software as a service performance was partially offset by weaknesses in sales of software, which is increasingly inconsistent with reduced sales of on-premise software and lingering softer demand for the transactional portion of our storage and retrieval services from a significant customer in the home mortgage lending industry.

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. Yellow Folder does not earn revenue in this category. Revenues from the sale of software, which are reported as part of our Document Management segment decreased by $49,198, or 76% during the first quarter 2023 compared to 2022.

These period over period changes are due to the timing of direct sales projects compared to the same periods in 2022. We expect the volatility of this revenue line item to continue as the frequency of on-premise software solution sales decreases over time and project timing is unpredictable.

Software as a Service Revenues

We provide access to our software solutions as a service, accessible through the internet. Our customers typically enter into our software as a service agreement for periods of one year or more. Under these agreements, we generally provide access to the applicable software, data storage and related customer assistance and support. Revenues from the sale of software as a service, which are reported as part of our Document Management segment increased by $807,211, or 187% in the first quarter 2023 compared to 2022. This increase was primarily the result of the Yellow Folder acquisition, which contributed $730,345, or 90% of the increase, augmenting the underlying new cloud-based solution sales, as well as expanded data storage, user seats, and hosting fees for existing customers. Excluding Yellow Folder, software as a service revenues grew 18% in the first quarter 2023 compared to 2022.

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. Yellow Folder does not earn revenue in this category. Revenues from the sale of software maintenance services, which are reported as part of our Document Management segment, increased by $12,940, or 4%, in the first quarter 2023 compared to 2022. This small increase in these revenues in the first quarter 2023 compared to 2022 was driven by the expansion of services with existing customers and price increases being partially offset by normal attrition and certain customers migrating their premise solution to our cloud solution, resulting software maintenance service revenues decreasing and software as a service revenues increasing. The combined growth of software as a service and software maintenance services revenues was 107%, which represents 16% without Yellow Folder.

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 2023, $2,166,974 was derived from our Document Conversion operations and $132,315 was derived from our Document Management operations. Our overall professional services revenues increased by $711,341, or 45%, in the first quarter 2023 compared to 2022. This increase is primarily the result of the strong recovery in our Document Conversion segment in the first quarter 2023 from the softer demand of early 2022. The increase includes the contribution of $110,316 in revenue from Yellow Folder for the first quarter.

Storage and Retrieval Services Revenues

We provide document storage and retrieval services to customers, primarily in Michigan. Revenues from storage and retrieval services, which are reported as part of our Document Conversion segment, increased by $1,027, or 0%, during the first quarter 2023 compared to 2022. This net increase was the result of $33,901 revenue contributed from the Yellow Folder acquisition largely offset by a decrease of $32,874, primarily driven by a significant reduction in volume of transactional work from our largest storage and retrieval customer, Rocket Mortgage, due to the significant slowdown in the home mortgage and refinancing industry.

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, 2023		Three months ended March 31, 2022
Cost of revenues by segment				
Document Management	$	286,375	$	180,044
Document Conversion		1,254,619		891,631
Total cost of revenues	$	1,540,994	$	1,071,675

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

		Three months ended March 31, 2023		Three months ended March 31, 2022
Cost of revenues:				
Sale of software	$	8,181	$	26,193
Software as a service		220,640		91,249
Software maintenance services		16,716		18,300
Professional services		1,187,116		848,167
Storage and retrieval services		108,341		87,766
Total cost of revenues	$	1,540,994	$	1,071,675

Our total cost of revenues during the first quarter 2023 increased by $469,319 or 44%, over 2022. Our cost of revenues for our Document Management segment increased by $106,331, or 59%, primarily due to the impact of Yellow Folder in that segment. Our cost of revenues for our Document Conversion segment increased by $362,988, or 41%, in the first quarter 2023 compared to 2022 primarily due to the increased demand, resulting in higher revenues and more labor to complete projects, as well as wage increases.

	For the three months ended March 31,			
		2023		**2022**
Gross profit:				
Sale of software	$	7,112	$	38,298
Software as a service		1,017,792		339,972
Software maintenance services		332,826		318,302
Professional services		1,112,173		739,781
Storage and retrieval services		175,936		195,484
Total gross profit	$	2,645,839	$	1,631,837
Gross profit percentage:				
Sale of software		46.5%		59.4%
Software as a service		82.2%		78.8%
Software maintenance services		95.2%		94.6%
Professional services		48.4%		46.6%
Storage and retrieval services		61.9%		69.0%
Total gross profit percentage		63.2%		60.4%

Our overall gross profit increased to 63% in the first quarter 2023 from 60% in 2022. The increase in the mix of software as a service revenue was the principal driver of the increase, due to the addition of Yellow Folder and overall strong margins in the Document Management segment, partially offset by margin erosion in the Document Conversion segment, driven by reduced margins in the storage and retrieval services, as well as wage increases.

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. During the first quarter 2023, cost of software revenues decreased by $18,012, or 69%, from 2022, decreasing along with revenues. Our gross margin for software revenues decreased to 47% from 59% in the first quarter 2022. The 2023 margins were impacted by solutions that required more costs to deliver. Yellow Folder had no impact to this category.

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 2023 increased by $129,391, or 142%, over the first quarter 2022. This increase in the cost of SaaS was less than the increase in associated SaaS revenues, so our gross margin in the first quarter increased to 82% compared to 79% in 2022, as a result of strong margins with and without Yellow Folder, which contributed 84% gross margin.

Cost of Software Maintenance Services

Cost of software maintenance services consists primarily of technical support personnel and related costs. Cost of software maintenance services decreased by $1,584, or 9%, in the first quarter 2023 from 2022, due to continued stable support activity. As a result, our gross margin for software maintenance services remained at 95% in the first quarter 2023 and 2022.

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 increased in the first quarter 2023 by $338,949, or 40%, over 2022, primarily due to increased staffing levels in our Document Conversion segment, to support our corresponding increased revenues, as well as wage increases, resulting in a gross margin of 46% without Yellow Folder, compared to 47% in the first quarter 2022. Yellow Folder contributed only $9,915 costs in the first quarter 2023, yielding a strong 91% margin. Consolidated, our gross margin for professional services increased to 48% during the first quarter 2023 compared to 47% in 2022. Gross margins related to consulting services in Document Management and digital transformation services in Document Conversion may vary widely, depending upon the nature of the project and the amount of labor required 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, provided primarily by our Michigan operations and to a much lesser extent, Yellow Folder. Cost of storage and retrieval services increased by $20,575, or 23%, during the first quarter 2023 compared to 2022. The increase was due to general wage inflation and fuel cost increases. Gross margins for our storage and retrieval services, which exclude the cost of facilities rental, maintenance, and related overheads, decreased to 62% during the first quarter 2023 compared to 69% in 2022. Yellow Folder did not have a material impact, contributing costs of $10,664, or 10% of the cost in the first quarter 2023, at a gross margin of 69%.

Operating Expenses

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

	Three months ended March 31, 2023	Three months ended March 31, 2022
Operating expenses:		
General and administrative	$ 1,554,611	$ 935,691
Change in fair value of earnout liabilities	-	64,204
Transaction costs	-	70,051
Sales and marketing	579,511	352,114
Depreciation and amortization	227,718	117,302
Total operating expenses	$ 2,361,840	$ 1,539,362

General and Administrative Expenses

General and administrative expenses increased in the first quarter 2023 by $615,728, or 66%, over 2022, principally related to the addition of Yellow Folder expenses in 2023, as well as from direct and indirect cost increases stemming from our uplisting to NYSE American and infrastructure investments such as our internal ERP system upgrade from QuickBooks to NetSuite. These increases were reflected in both our Document Management segment, in which our general and administrative expenses increased to $800,729 in first quarter 2023 from $463,413 in 2022, and also in our Document Conversion segment, in which our general and administrative expenses increased to $753,882 in first quarter 2023 from $545,521 in 2022.

Change in Fair Value of Earnout Liabilities

The final earnout liabilities were paid in January 2023 and there were no changes in fair value in the first quarter 2023. During the first quarter 2022, fair value adjustments totaling $64,204 were driven by updated assumptions to reflect the improved performance of the affected acquisitions against their threshold targets and the decreasing impact of present value discounting.

Significant Transaction Expenses

There were no significant transaction expenses during the first quarter 2023. 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.

Sales and Marketing Expenses

Sales and marketing expenses during the first quarter 2023 increased by $227,397, or 65%, over the first quarter 2022, principally related to the addition of Yellow Folder expenses in 2023.

Depreciation and Amortization

Depreciation and amortization during the first quarter 2023 increased by $110 416, or 94%, over the first quarter 2022 primarily as a result of amortization of new intangible assets related to the Yellow Folder acquisition, which amounted to $75,458 in the first quarter 2023, as well as increased amortization of capitalized software costs.

Other Items of Income and Expense

Interest Expense, Net

Interest expense was $171,436 during the first quarter 2023 as compared with $112,601 during the first quarter 2022, representing an increase of $58,835 or 52%. The increase resulted from incremental interest expense on increased net debt following the April 1, 2022 private placement of securities, partially offset by reduced interest resulting from partial principal repayment of the 2020 Notes on December 1, 2022 and February 28, 2023.

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, we have raised a total of approximately $25.2 million in cash through issuances of debt and equity securities, net of $1.3 million in debt repayments. As of March 31, 2023, we had approximately $1.4 million in cash and cash equivalents, net working capital deficit of $0.8 million, and an accumulated deficit of $21.5 million. In January 2023, we paid $0.7 million in final earnout payments and in February 2023 and December 2022 we prepaid approximately $1.3 million in principal, which was due in February 2023.

In 2023 and 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 30, 2025, which we refer to as the 2022 Notes (some of which was used to acquire Yellow Folder, with the remainder used for general working capital).

Of our existing debt as of March 31, 2023, $0.7 million is due August 31, 2023, and approximately $3 million is due March 30, 2025. Our operating cash flow alone may be insufficient to meet the debt obligations in full in 2023. 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 global inflation and general economic uncertainty.

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 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, 2023, 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 $717,500 and accrued interest of $0.
- The 2022 Notes issued to accredited investors on April 1, 2022, with an aggregate outstanding principal balance of $2,964,500 and accrued interest of $0.

See Note 8 and Note 9 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report for further information on the 2020 and 2022 notes.

Capital Expenditures

There were no material commitments for capital expenditures at March 31, 2023.

Cash Used and Provided by Operating Activities

Net cash used in operating activities during the first quarter 2023 was $174,357, primarily attributable to the net income adjusted for non-cash expenses of $434,066, an increase in operating assets of $383,039 and a decrease in operating liabilities of $337,947, primarily deferred revenues of $571,788. Net cash provided by operating activities during the first quarter 2022 was $505,568, primarily attributable to the net loss adjusted for non-cash expenses, of $312,470, a decrease in operating assets of $197,948 and a decrease in operating liabilities of $15,276.

Cash Used in Investing Activities

Net cash used in investing activities in the first quarter 2023 was $134,569, including $112,208 related to capitalized internal use software. Net cash used in investing activities in the first quarter 2022 was $85,440, primarily related to purchases of property and equipment, as well as $29,397 related to capitalized internal use software.

Cash Used in Financing Activities

Net cash used by financing activities during 2023 amounted to $700,000 in earnout liability payments, $262,950 in repayment of notes payable, and $5,467 in the principal portion of a finance lease liability. There were no financing activities during the first quarter 2022.

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, 2022. There were no material changes to our critical accounting policies and estimates during the first quarter 2023.

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, 2023, 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, 2022.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

Exhibit No.	Description of Exhibit
10.1*	Intellinetics, Inc. 2023 Non-Employee Director Compensation Plan.
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 15, 2023

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

Dated: May 15, 2023

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

Exhibit 10.1

INTELLINETICS, INC. 2023 NON-EMPLOYEE DIRECTOR COMPENSATION PLAN

1. <u>Purpose</u>. This Non-Employee Director Compensation Plan (the “**Plan**”) is intended to attract highly qualified individuals to serve as Non-Employee Directors of Intellinetics, Inc. (the “**Company**”) and to provide Non-Employee Directors with incentives and rewards that motivate superior oversight and protection of the Company’s business.

2. <u>Definitions</u>.

“**Affiliate**” means a corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company.

“**Annual Award**” means an equity award granted pursuant to Section 6 of the Plan.

“**Annual Retainer**” means the annual fee payable by the Company to a Non-Employee Director with respect to their service as a member of the Board.

“**Award**” means an Annual Award or an Initial Award.

“**Award Agreement**” means an agreement by and between a Non-Employee Director and the Company evidencing the terms of an Award and entered into pursuant to the terms of this Plan.

“**Board or Board of Directors**” means the Board of Directors of the Company, as constituted from time to time.

“**Board Term**” means the approximate 12-month period commencing on the date of the Company’s annual meeting of shareholders at which Board members are elected or appointed for the year.

“**Cause**” means a determination by a majority of the disinterested Board members that the Non-Employee Director has engaged in any of the following:

(a) malfeasance in office;

(b) gross misconduct or neglect;

(c) false or fraudulent misrepresentation inducing the director’s appointment;

(d) willful conversion of corporate funds; or

(e) repeated failure to participate in Board meetings on a regular basis despite having received proper notice of the meetings in advance.

“**Change in Control**” means:

(a) The direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its subsidiaries, taken as a whole, to any Person that is not a subsidiary of the Company;

(b) The Incumbent Directors cease for any reason to constitute at least a majority of the Board;

(c) The date which is 10 business days prior to the consummation of a complete liquidation or dissolution of the Company;

(d) The acquisition by any Person of Beneficial Ownership of 50% or more (on a fully diluted basis) of either (i) the then outstanding shares of Common Stock of the Company, taking into account as outstanding for this purpose such Common Stock issuable upon the exercise of options or warrants, the conversion of convertible stock or debt, and the exercise of any similar right to acquire such Common Stock (the "Outstanding Company Common Stock") or (ii) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Plan, the following acquisitions shall not constitute a Change in Control: (A) any acquisition by the Company or any Affiliate, (B) any acquisition by any employee benefit plan sponsored or maintained by the Company or any subsidiary, (C) any acquisition which complies with clauses, (i), (ii) and (iii) of subsection (e) of this definition or (D) in respect of an Award held by a particular Participant, any acquisition by the Participant or any group of persons including the Participant (or any entity controlled by the Participant or any group of persons including the Participant); or

(e) The consummation of a reorganization, merger, consolidation, statutory share exchange or similar form of corporate transaction involving the Company that requires the approval of the Company's shareholders, whether for such transaction or the issuance of securities in the transaction (a "Business Combination"), unless immediately following such Business Combination: (i) more than 50% of the total voting power of (A) the entity resulting from such Business Combination (the "Surviving Company"), or (B) if applicable, the ultimate parent entity that directly or indirectly has beneficial ownership of sufficient voting securities eligible to elect a majority of the members of the board of directors (or the analogous governing body) of the Surviving Company (the "Parent Company"), is represented by the Outstanding Company Voting Securities that were outstanding immediately prior to such Business Combination (or, if applicable, is represented by shares into which the Outstanding Company Voting Securities were converted pursuant to such Business Combination), and such voting power among the holders thereof is in substantially the same proportion as the voting power of the Outstanding Company Voting Securities among the holders thereof immediately prior to the Business Combination; (ii) no Person (other than any employee benefit plan sponsored or maintained by the Surviving Company or the Parent Company) is or becomes the Beneficial Owner, directly or indirectly, of 50% or more of the total voting power of the outstanding voting securities eligible to elect members of the board of directors of the Parent Company (or the analogous governing body) (or, if there is no Parent Company, the Surviving Company); and (iii) at least a majority of the members of the board of directors (or the analogous governing body) of the Parent Company (or, if there is no Parent Company, the Surviving Company) following the consummation of the Business Combination were Board members at the time of the Board's approval of the execution of the initial agreement providing for such Business Combination.

"**Code**" means the Internal Revenue Code of 1986, as it may be amended from time to time. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

"**Committee**" means a standing committee of the Board.

"**Committee Annual Retainer**" means the annual fee payable by the Company to a Non-Employee Director with respect to their service on a Committee.

"**Committee Chair**" means the Non-Employee Director serving as the chair of a Committee.

"**Committee Chair Annual Retainer**" means the annual fee payable by the Company to a Committee Chair with respect to their service as a Committee Chair.

"**Company**" means Intellinetics, Inc., a Nevada corporation, including any successor thereto.

"**Compensation Committee**" means the Compensation Committee of the Board.

"**Disability**" means the Non-Employee Director is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than twelve months.

"**Effective Date**" means the date as of which this Plan is adopted by the Board.

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Fair Market Value**” means, as of any date, the value of the Shares as determined below. If the Shares are listed on any established stock exchange or a national market system, including, without limitation, the New York Stock Exchange, NYSE American, or the Nasdaq Stock Market, the Fair Market Value shall be the closing price of a Share (or if no sales were reported, the closing price on the date immediately preceding such date) as quoted on such exchange or system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Compensation Committee deems reliable. In the absence of an established market for the Shares, the Fair Market Value shall be determined in good faith by the Compensation Committee and such determination shall be conclusive and binding on all persons.

“**Grant Date**” means, with respect to an Annual Award, the date of the annual meeting of shareholders at which the Non-Employee Director is appointed or elected for the next Board Term, and with respect to an Initial Award, the first business day of the month next following the date the Non-Employee Director is initially appointed or elected to the Board.

“**Initial Award**” means an equity award granted pursuant to Section 6 of the Plan in connection with a Non-Employee Director’s initial election or appointment to the Board.

“**Nominating and Governance Committee**” means the Nominating and Governance Committee of the Board.

“**Non-Employee Director**” means a member of the Board who is not an officer or employee of the Company or any of its subsidiaries or Affiliates.

“**Option**” or “**Non-Qualified Stock Option**” means a stock option that is not intended to qualify as an incentive stock option under Section 422 of the Code.

“Optionholder” means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

“Option Exercise Price” means the price at which a share of Common Stock may be purchased upon the exercise of an Option.

“Permitted Transferee” means: (a) a member of the Optionholder’s immediate family (child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships), any person sharing the Optionholder’s household (other than a tenant or employee), a trust in which these persons have more than 50% of the beneficial interest, a foundation in which these persons (or the Optionholder) control the management of assets, and any other entity in which these persons (or the Optionholder) own more than 50% of the voting interests; (b) third parties designated by the Committee in connection with a program established and approved by the Committee pursuant to which Non-Employee Directors may receive a cash payment or other consideration in consideration for the transfer of a Non-qualified Stock Option; and (c) such other transferees as may be permitted by the Committee in its sole discretion.

“**Plan**” means this Intellinetics, Inc. Non-Employee Director Compensation Plan, as set forth herein, and as amended from time to time.

“**Quarterly Payment Dates**” has the meaning set forth in Section 5.3 of the Plan.

“Restricted Award” means any Award granted pursuant to Section 6.4.

“**Restricted Stock Period**” has the meaning set forth in Section 6.4.

“**Restricted Stock**” has the meaning set forth in Section 6.4.

"**Restricted Stock Unit**" has the meaning set forth in Section 6.4.

"**Section 409A**" means Section 409A of the Code and all authoritative interpretive guidance issued thereunder.

"**Separation from Service**" means a Non-Employee Director ceasing to be a member of the Board due to a voluntary or involuntary separation from service, for any reason, determined in accordance with Section 409A.

"**Share**" means a share of the Company's common stock, par value $0.001.

3. Administration. The Plan shall be administered by the Compensation Committee which shall have the authority to construe and interpret the Plan, prescribe, amend and rescind rules relating to the Plan's administration and take any other actions necessary or desirable for the administration of the Plan. The Committee also may modify the purchase price or the exercise price of any outstanding Award, *provided that* if the modification effects a repricing, shareholder approval shall be required before the repricing is effective. The Plan may also be administered by the Board, in the Board's sole discretion. The Compensation Committee may correct any defect or supply any omission or reconcile any inconsistency or ambiguity in the Plan. The decisions of the Compensation Committee shall be final and binding on all persons. All expenses of administering the Plan shall be borne by the Company.

4. Eligibility. Each Non-Employee Director shall be eligible to receive the compensation provided hereunder. Directors who are also employees of the Company do not receive additional compensation for service as a director and shall not be eligible to participate in the Plan.

5. Cash Compensation.

5.1 Board Member Annual Retainer. Each Non-Employee Director who is elected or appointed to the Board shall receive an Annual Retainer for the Board Term, pro-rated based on the number of complete months of the Board Term during which the Non-Employee Director serves as a member of the Board, unless otherwise determined by the Committee. The amount of the Annual Retainer shall be as determined by the Board from time to time, and may vary among Non-Employee Directors if the Board deems appropriate.

5.2 Board Chair Annual Retainer. A Non-Employee Director who is appointed to serve as a Board Chair shall receive a Board Chair Annual Retainer for the Board Term served, pro-rated based on the number of complete months of the Board Term during which the Non-Employee Director serves as Chair, unless otherwise determined by the Committee. The amount of the Board Chair Annual Retainer shall be as determined by the Board from time to time.

5.3 Form of Payment of Annual Retainers.

(a) Except as otherwise provided herein, Annual Retainers shall be paid in cash, in equal quarterly installments (the "**Quarterly Payment Dates**"). Any pro-rated portion of any Annual Retainer for any quarter shall be payable on the next regularly scheduled Quarterly Payment Date.

(b) Notwithstanding any other provision contained herein, each Non-Employee Director may elect to have the Company pay all or a portion of their Annual Retainer(s) in Shares, in lieu of cash. The number of Shares paid shall be determined by dividing the dollar amount of the Annual Retainer(s) by the Fair Market Value of a Share on the date the Annual Retainer(s) are otherwise payable, rounded to the nearest whole Share. In no case shall any fractional Shares be issued. In lieu of any fractional Shares, Non-Employee Directors shall be entitled to cash equal to the value of any fractional Shares. Shares issued in lieu of cash shall be fully vested and unrestricted Shares issued pursuant to this Plan and shall be paid on the same schedule as Annual Retainers paid in cash or, if the Shares cannot be delivered due to a Company blackout period, then the Shares will be delivered on the first business day following the end of the blackout period. Any election by a Non-Employee Director to receive their Annual Retainer(s) for a Board Term in Shares must be made no later than the expiration of the election period established by the Compensation Committee which period shall end no later than September 30 of the calendar year immediately preceding the calendar year in which the Board Term begins or, if later, within 30 days of a Non-Employee Director's initial appointment to the Board, but only with respect to compensation earned after the date of the election. Any election must comply with all rules established from time to time by the Board, including any insider trading policy or similar policy. A Non-Employee Director may not make an election pursuant to this Section 5.3(b) during a Company blackout period or when the Non-Employee Director is otherwise in possession of material non-public information.

6. Equity Compensation.

6.1 Shares Subject to the Plan. Subject to adjustment in accordance with Section 6.9, a total of 150,000 shares of Common Stock shall be available for the grant of Awards under the Plan. Any shares of Common Stock granted in connection with Awards shall be counted against this limit as one (1) share for every one (1) share of Common Stock granted in connection with such Award. During the terms of the Awards, the Company shall keep available at all times the number of shares of Common Stock required to satisfy such Awards. Shares of Common Stock available for distribution under the Plan may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares reacquired by the Company in any manner. Any shares of Common Stock subject to an Award that is canceled, forfeited, or expires prior to exercise or realization, either in full or in part, shall again become available for issuance under the Plan. Notwithstanding anything to the contrary contained herein, shares subject to an Award under the Plan shall not again be made available for issuance or delivery under the Plan if such shares are (a) shares tendered in payment of an Option or (b) shares delivered or withheld by the Company to satisfy any tax withholding obligation. Awards that may be granted under the Plan include: Restricted Awards and Non-Qualified Stock Options.

6.2 Initial Awards and Annual Awards.

(a) Initial Awards. In connection with joining the Board, on the Grant Date for Initial Awards, each Non-Employee Director will receive an Initial Award consisting of a pro-rated amount of Awards for the remainder of the calendar year following the Grant Date. If the Board authorizes an Award by value, the number of shares included in such Award shall be calculated by dividing the dollar amount of the Award by the Fair Market Value of a Share on the Grant Date, rounded to the nearest whole Share. The Awards shall be granted pursuant to the terms of this Plan and an Award Agreement between the Non-Employee Director and the Company.

(b) Annual Awards. On the Grant Date for Annual Awards, each Non-Employee Director who continues as a member of the Board will receive an Annual Award in such form and amounts as determined by the Board from time to time. If the Board authorizes an Award by value, the number of shares included in such Award shall be calculated by dividing the dollar amount of the Award by the Fair Market Value of a Share on the Grant Date, rounded to the nearest whole Share. The Awards shall be granted pursuant to the terms of this Plan and an Award Agreement between the Non-Employee Director and the Company.

6.3 Non-Qualified Stock Options. Each Option granted under the Plan shall be evidenced by an Award Agreement. Each Option so granted shall be subject to the conditions set forth in this Section 6.3, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement. All Options shall be designated as non-qualified Options at the time of grant. The provisions of separate Options need not be identical, but each Option shall include (through incorporation of provisions hereof by reference in the Option or otherwise) the substance of each of the following provisions:

(a) Term. The term of an Option granted under the Plan shall be determined by the Committee; *provided, however*, no Stock Option shall be exercisable after the expiration of 10 years from the Grant Date.

(b) Exercise Price. The Option Exercise Price of each Stock Option shall be not less than 100% of the Fair Market Value of the Common Stock subject to the Stock Option on the Grant Date. Notwithstanding the foregoing, an Option may be granted with an Option Exercise Price lower than that set forth in the preceding sentence if such Stock Option is granted pursuant to an assumption or substitution for another option in a manner satisfying the provisions of Section 409A of the Code.

(c) Consideration. The Option Exercise Price of Common Stock acquired pursuant to an Stock Option shall be paid, to the extent permitted by applicable statutes and regulations, either (a) in cash or by certified or bank check at the time the Option is exercised or (b) in the discretion of the Committee, upon such terms as the Committee shall approve, the Option Exercise Price may be paid: (i) by delivery to the Company of other Common Stock, duly endorsed for transfer to the Company, with a Fair Market Value on the date of delivery equal to the Option Exercise Price (or portion thereof) due for the number of shares being acquired, or by means of attestation whereby the Non-Employee Director identifies for delivery specific shares of Common Stock that have an aggregate Fair Market Value on the date of attestation equal to the Option Exercise Price (or portion thereof) and receives a number of shares of Common Stock equal to the difference between the number of shares thereby purchased and the number of identified attestation shares of Common Stock (a "**Stock for Stock Exchange**"); (ii) a "cashless" exercise program established with a broker; (iii) by reduction in the number of shares of Common Stock otherwise deliverable upon exercise of such Option with a Fair Market Value equal to the aggregate Option Exercise Price at the time of exercise; (iv) any combination of the foregoing methods; or (v) in any other form of legal consideration that may be acceptable to the Committee. Unless otherwise specifically provided in the Option, the exercise price of Common Stock acquired pursuant to an Option that is paid by delivery (or attestation) to the Company of other Common Stock acquired, directly or indirectly from the Company, shall be paid only by shares of the Common Stock of the Company that have been held for more than six months (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes). Notwithstanding the foregoing, during any period for which the Common Stock is publicly traded (i.e., the Common Stock is listed on any established stock exchange or a national market system) an exercise by a Director that involves or may involve a direct or indirect extension of credit or arrangement of an extension of credit by the Company, directly or indirectly, in violation of Section 402(a) of the Sarbanes-Oxley Act of 2002 shall be prohibited with respect to any Award under this Plan.

(d) Transferability of an Option. An Option may, in the sole discretion of the Committee, be transferable to a Permitted Transferee, upon written approval by the Committee to the extent provided in the Award Agreement. If the Option does not provide for transferability, then the Option shall not be transferable except by will or by the laws of descent and distribution and shall be exercisable during the lifetime of the Optionholder only by the Optionholder. Notwithstanding the foregoing, the Optionholder may, by delivering written notice to the Company, in a form satisfactory to the Company, designate a third party who, in the event of the death of the Optionholder, shall thereafter be entitled to exercise the Option.

(e) Vesting of Options. Options may, but need not, vest and therefore become exercisable in periodic installments that may, but need not, be equal. The Option may be subject to such other terms and conditions on the time or times when it may be exercised (which may be based on performance or other criteria) as the Committee may deem appropriate. No Option may be exercised for a fraction of a share of Common Stock. Except as otherwise provided herein, if a Non-Employee Director experiences a Separation from Service before an Option vests, the Option shall be forfeited. Notwithstanding the foregoing, in the event of a Non-Employee Director's Separation from Service due to their death or Disability, the unvested portion of the Option shall immediately vest on the date of the Separation from Service. Upon the occurrence of a Change in Control, the unvested portion of the Option shall immediately vest on the date of the Change in Control.

(f) Separation from Service. Unless otherwise provided in an Award Agreement, in the event of a Separation from Service (other than upon the Optionholder's death or Disability), the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination) but only within such period of time ending on the earlier of (a) the date three months following the termination of the Optionholder's Separation from Service or (b) the expiration of the term of the Option as set forth in the Award Agreement; *provided that*, if the Separation from Service is by the Company for Cause, all outstanding Options (whether or not vested) shall immediately terminate and cease to be exercisable. If, after termination, the Optionholder does not exercise his or her Option within the time specified in the Award Agreement, the Option shall terminate.

(g) Extension of Termination Date. An Optionholder's Award Agreement may also provide that if the exercise of the Option following the termination of the Optionholder's Continuous Service for any reason would be prohibited at any time because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act or any other state or federal securities law or the rules of any securities exchange or interdealer quotation system, then the Option shall terminate on the earlier of (a) the expiration of the term of the Option in accordance with Section Section 6.3(a) or (b) the expiration of a period after termination of the Non-Employee Director's Continuous Service that is three months after the end of the period during which the exercise of the Option would be in violation of such registration or other securities law requirements.

(h) Disability of Optionholder. Unless otherwise provided in an Award Agreement, in the event that an Optionholder's Continuous Service terminates as a result of the Optionholder's Disability, the Optionholder may exercise his or her Option (to the extent that the Optionholder was entitled to exercise such Option as of the date of termination), but only within such period of time ending on the earlier of (a) the date 12 months following such termination or (b) the expiration of the term of the Option as set forth in the Award Agreement. If, after termination, the Optionholder does not exercise his or her Option within the time specified herein or in the Award Agreement, the Option shall terminate.

(i) Death of Optionholder. Unless otherwise provided in an Award Agreement, in the event an Optionholder's Continuous Service terminates as a result of the Optionholder's death, then the Option may be exercised (to the extent the Optionholder was entitled to exercise such Option as of the date of death) by the Optionholder's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Optionholder's death, but only within the period ending on the earlier of (a) the date 12 months following the date of death or (b) the expiration of the term of such Option as set forth in the Award Agreement. If, after the Optionholder's death, the Option is not exercised within the time specified herein or in the Award Agreement, the Option shall terminate.

6.4 Restricted Awards. A Restricted Award is an Award of actual shares of Common Stock ("**Restricted Stock**") or hypothetical Common Stock units ("**Restricted Stock Units**") having a value equal to the Fair Market Value of an identical number of shares of Common Stock, which may, but need not, provide that such Restricted Award may not be sold, assigned, transferred or otherwise disposed of, pledged or hypothecated as collateral for a loan or as security for the performance of any obligation or for any other purpose for such period (the "**Restricted Period**") as the Committee shall determine. Each Restricted Award granted under the Plan shall be evidenced by an Award Agreement. Each Restricted Award so granted shall be subject to the conditions set forth in this Section 6.4, and to such other conditions not inconsistent with the Plan as may be reflected in the applicable Award Agreement.

(a) Restricted Stock and Restricted Stock Units.

(i) Each Non-Employee Director granted Restricted Stock shall execute and deliver to the Company an Award Agreement with respect to the Restricted Stock setting forth the restrictions and other terms and conditions applicable to such Restricted Stock. If the Committee determines that the Restricted Stock shall be held by the Company or in escrow rather than delivered to the Non-Employee Director pending the release of the applicable restrictions, the Committee may require the Non-Employee Director to additionally execute and deliver to the Company (A) an escrow agreement satisfactory to the Committee, if applicable and (B) the appropriate blank stock power with respect to the Restricted Stock covered by such agreement. If a Non-Employee Director fails to execute an agreement evidencing an Award of Restricted Stock and, if applicable, an escrow agreement and stock power, the Award shall be null and void. Subject to the restrictions set forth in the Award, the Non-Employee Director generally shall have the rights and privileges of a shareholder as to such Restricted Stock, including the right to vote such Restricted Stock and the right to receive dividends.

(ii) The terms and conditions of a grant of Restricted Stock Units shall be reflected in an Award Agreement. No shares of Common Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such Award. A Non-Employee Director shall have no voting rights with respect to any Restricted Stock Units granted hereunder. The Committee may also grant Restricted Stock Units with a deferral feature, whereby settlement is deferred beyond the vesting date until the occurrence of a future payment date or event set forth in an Award Agreement ("**Deferred Stock Units**").

(b) Restrictions.

(i) Restricted Stock awarded to a Non-Employee Director shall be subject to the following restrictions until the expiration of the Restricted Period, and to such other terms and conditions as may be set forth in the applicable Award Agreement: (A) if an escrow arrangement is used, the Non-Employee Director shall not be entitled to delivery of the stock certificate; (B) the shares shall be subject to the restrictions on transferability set forth in the Award Agreement; (C) the shares shall be subject to forfeiture to the extent provided in the applicable Award Agreement; and (D) to the extent such shares are forfeited, the stock certificates shall be returned to the Company, and all rights of the Non-Employee Director to such shares and as a shareholder with respect to such shares shall terminate without further obligation on the part of the Company.

(ii) Restricted Stock Units and Deferred Stock Units awarded to any Non-Employee Director shall be subject to (A) forfeiture until the expiration of the Restricted Period, and satisfaction of any applicable Performance Goals during such period, to the extent provided in the applicable Award Agreement, and to the extent such Restricted Stock Units or Deferred Stock Units are forfeited, all rights of the Non-Employee Director to such Restricted Stock Units or Deferred Stock Units shall terminate without further obligation on the part of the Company and (B) such other terms and conditions as may be set forth in the applicable Award Agreement.

(iii) The Committee shall have the authority to remove any or all of the restrictions on the Restricted Stock, Restricted Stock Units and Deferred Stock Units whenever it may determine that, by reason of changes in Applicable Laws or other changes in circumstances arising after the date the Restricted Stock or Restricted Stock Units or Deferred Stock Units are granted, such action is appropriate.

(c) Restricted Period. With respect to Restricted Awards, the Restricted Period shall commence on the Grant Date and end at the time or times set forth on a schedule established by the Committee in the applicable Award Agreement. Except as otherwise provided herein, if a Non-Employee Director experiences a Separation from Service before the Restricted Awards vest, then the unvested portion of the Restricted Award shall be forfeited. No Restricted Award may be granted or settled for a fraction of a share of Common Stock. Notwithstanding the foregoing, in the event of a Non-Employee Director's Separation from Service before the Restricted Award vests due to the Non-Employee Director's death or Disability, the unvested portion of the Restricted Award shall immediately vest on the date of the Separation from Service. Notwithstanding the foregoing, upon the occurrence of a Change in Control, the unvested portion of the Restricted Award shall immediately vest on the date of the Change in Control.

(d) Delivery of Restricted Stock and Settlement of Restricted Stock Units. Upon the expiration of the Restricted Period with respect to any shares of Restricted Stock, the restrictions set forth in Section 6.4(b) and the applicable Award Agreement shall be of no further force or effect with respect to such shares, except as set forth in the applicable Award Agreement. If an escrow arrangement is used, upon such expiration, the Company shall deliver to the Non-Employee Director, or his or her beneficiary, without charge, the stock certificate evidencing the shares of Restricted Stock which have not then been forfeited and with respect to which the Restricted Period has expired (to the nearest full share). Upon the expiration of the Restricted Period with respect to any outstanding Restricted Stock Units, or at the expiration of the deferral period with respect to any outstanding Deferred Stock Units, the Company shall deliver to the Non-Employee Director, or his or her beneficiary, without charge, one share of Common Stock for each such outstanding vested Restricted Stock Unit or Deferred Stock Unit ("**Vested Unit**"); *provided, however*, that, if explicitly provided in the applicable Award Agreement, the Committee may, in its sole discretion, elect to pay cash or part cash and part Common Stock in lieu of delivering only shares of Common Stock for Vested Units. If a cash payment is made in lieu of delivering shares of Common Stock, the amount of such payment shall be equal to the Fair Market Value of the Common Stock as of the date on which the Restricted Period lapsed in the case of Restricted Stock Units, or the delivery date in the case of Deferred Stock Units, with respect to each Vested Unit.

(e) Stock Restrictions. Each certificate representing Restricted Stock awarded under the Plan shall bear a legend in such form as the Company deems appropriate.

6.5 Securities Law Compliance. Each Award Agreement shall provide that no shares of Common Stock shall be purchased or sold thereunder unless and until (a) any then applicable requirements of state or federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel and (b) if required to do so by the Company, the Non-Employee Director has executed and delivered to the Company a letter of investment intent in such form and containing such provisions as the Committee may require. The Company shall use reasonable efforts to seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Awards and to issue and sell shares of Common Stock upon exercise of the Awards; *provided, however*, that this undertaking shall not require the Company to register under the Securities Act the Plan, any Award or any Common Stock issued or issuable pursuant to any such Award. If, after reasonable efforts, the Company is unable to obtain from any such regulatory commission or agency the authority which counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company shall be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Awards unless and until such authority is obtained.

6.6 Use of Proceeds from Stock. Proceeds from the sale of Common Stock pursuant to Awards, or upon exercise thereof, shall constitute general funds of the Company.

6.7 Acceleration of Exercisability and Vesting. The Committee shall have the power to accelerate the time at which an Award may first be exercised or the time during which an Award or any part thereof will vest in accordance with the Plan, notwithstanding the provisions in the Award stating the time at which it may first be exercised or the time during which it will vest.

6.8 Shareholder Rights. Except as provided in the Plan or an Award Agreement, no Non-Employee Director shall be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to such Award unless and until such Non-Employee Director has satisfied all requirements for exercise of the Award pursuant to its terms and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions of other rights for which the record date is prior to the date such Common Stock certificate is issued, except as provided in Section 6.9 hereof.

6.9 Adjustments Upon Changes in Stock. In the event of changes in the outstanding Common Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, consolidation, combination, exchange, or other relevant change in capitalization occurring after the Grant Date of any Award, Awards granted under the Plan and any Award Agreements, the exercise price of Options, the maximum number of shares of Common Stock subject to all Awards stated in Section 6 will be equitably adjusted or substituted, as to the number, price or kind of a share of Common Stock or other consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. In the case of adjustments made pursuant to this Section 6.9, unless the Committee specifically determines that such adjustment is in the best interests of the Company or its Affiliates, the Committee shall, in the case of Non-qualified Stock Options, ensure that any adjustments under this Section 6.9 will not constitute a modification of such Non-qualified Stock Options within the meaning of Section 409A of the Code. Any adjustments made under this Section 6.9 shall be made in a manner which does not adversely affect the exemption provided pursuant to Rule 16b-3 under the Exchange Act. The Company shall give each Non-Employee Director notice of an adjustment hereunder and, upon notice, such adjustment shall be conclusive and binding for all purposes.

7. Reimbursement of Expenses. Upon prior written approval by the Company, the Company shall reimburse each Non-Employee Director for their reasonable business expenses incurred in connection with the performance of their duties, including reasonable travel and other expenses incurred by the Non-Employee Director to attend Board meetings. Each Non-Employee Director shall provide to the Company such receipts and other records related to such reimbursable expenses as the Company may require.

To the extent that any reimbursement under the Plan provides for a deferral of compensation under Section 409A, (a) the amount eligible for reimbursement in one calendar year may not affect the amount eligible for reimbursement in any other calendar year; (b) the right to reimbursement is not subject to liquidation or exchange for another benefit; and (c) any such reimbursement of an expense must be made on or before the last day of the calendar year following the calendar year in which the expense was incurred.

8. General Provisions.

8.1 Unfunded Obligations. The amounts to be paid to Non-Employee Directors under the Plan are unfunded obligations of the Company. The Company is not required to segregate any monies or other assets from its general funds with respect to these obligations. Non-Employee Directors shall not have any preference or security interest in any assets of the Company other than as a general unsecured creditor.

8.2 No Right to Continued Board Membership. Neither the Plan nor any compensation paid hereunder will confer on any Non-Employee Director the right to continue to serve as a member of the Board or in any other capacity.

8.3 Nonassignment. Any and all rights of a Non-Employee Director respecting payments under this Plan may not be assigned, transferred, pledged or encumbered in any manner, other than by will or the laws of descent and distribution, and any attempt to do so shall be void.

8.4 Successors and Assigns. The Plan shall be binding on the Company and its successors and assigns.

8.5 Entire Plan. This Plan constitutes the entire plan with respect to the subject matter hereof and supersedes all prior plans with respect to the subject matter hereof.

8.6 Compliance with Law. The obligations of the Company with respect to payments under the Plan are subject to compliance with all applicable laws and regulations.

8.7 Term of Plan. The Plan shall become effective on the Effective Date and, unless terminated earlier pursuant to Section 8.8, this Plan will remain in effect until it is revised or terminated by further action of the Board.

8.8 Termination and Amendment. The Board may at any time amend or modify this Plan in whole or in part or any Award issued hereunder. Notwithstanding the foregoing, no amendment or termination of the Plan may impair the right of a Non-Employee Director to receive any amounts accrued hereunder prior to the effective date of such amendment or termination.

8.9 Applicable Law. The law of the State of Ohio shall govern all questions concerning the construction, validity and interpretation of the Plan, without regard to such state's conflict of law rules.

8.10 Section 409A. The Plan is intended to comply with the requirements of Section 409A, to the extent applicable, and shall be interpreted accordingly. Notwithstanding the foregoing, the Company makes no representations or covenants that any compensation paid or awarded under the Plan will comply with Section 409A.

8.11 Clawback. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

8.12 Withholding. To the extent required by applicable Federal, state or local law, a Non-Employee Director must make arrangements satisfactory to the Company for the payment of any withholding or similar tax obligations that arise in connection with the Plan. The Non-Employee Director may satisfy any federal, state or local tax withholding obligation relating to the exercise or acquisition of Common Stock under an Award by any of the following means (in addition to the Company's right to withhold from any cash compensation paid to the Non-Employee Director by the Company) or by a combination of such means: (a) tendering a cash payment; (b) authorizing the Company to withhold shares of Common Stock from the shares of Common Stock otherwise issuable to the Non-Employee Director as a result of the exercise or acquisition of Common Stock under the Award, *provided, however*, that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law; or (c) delivering to the Company previously owned and unencumbered shares of Common Stock of the Company.

8.13 Severability. If any provision of the Plan shall for any reason be held to be invalid or unenforceable, such invalidity or unenforceability shall not affect any other provision hereof, and the Plan shall be construed as if such invalid or unenforceable provision were omitted.

8.14 Headings. The headings of sections herein are included solely for convenience and shall not affect the meaning of any of the provisions of the Plan.

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 15, 2023

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 15, 2023

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, 2023, 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 15, 2023

/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, 2023, 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 15, 2023

/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.