

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

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2017

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 000-31671

**INTELLINETICS, INC.**

(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction of  
incorporation or organization)

87-0613716  
(I.R.S. Employer  
Identification No.)

2190 Dividend Drive  
Columbus, Ohio 43228  
(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	None
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. **\$5,721,350.**

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **17,729,421 shares of common stock, par value \$0.001 per share, were outstanding as of March 27, 2018.**

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the close of the registrant's fiscal year ended December 31, 2017, are incorporated by reference in Part III hereof.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

- our prospects, including our future business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our targeted growth rate, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;
- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current economic and market conditions and their effects on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;
- the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, liquidity, financial condition and results of operations;
- our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers’ requirements, and our ability to successfully develop and market new products, services, technologies and systems;
- our markets, including our market position and our market share;
- our ability to successfully develop, operate, grow and diversify our operations and businesses;
- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;
- the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;
- industry trends and customer preferences and the demand for our products, services, technologies and systems;
- the nature and intensity of our competition, and our ability to successfully compete in our markets;
- business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships; and
- the effects on our business, financial condition and results of operations of litigation, warranty claims and other claims and proceedings that arise from time to time.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in “Risk Factors” as well as other risks, uncertainties and factors discussed elsewhere in this report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the SEC. In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

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

## **PART I**

### **ITEM 1. BUSINESS**

#### **Company Overview**

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

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

Customers obtain use of the Company’s software by either purchasing for installation onto their equipment, referred to as a “premise” model, or by accessing the platform via the Internet, referred to as a “cloud-based” or “software as a service” (“SaaS”) model. The Company anticipates that the provision of “cloud” application services, or SaaS cloud-based customer activation, will increase over time and become a growing priority in the market and is the most significant strategic part of its revenue growth opportunity. Our SaaS products are hosted with Amazon Web Services and Expedient, offering our customers reliable hosting services with best practices in data security.

#### **Software and Services**

Our flagship software platform is branded IntelliCloud™, reflecting the Company and market focus on growth via cloud-based managed document service delivery. The Company also provides professional services that include installation, integration, training and consulting services as well as ongoing software maintenance and customer support.

The four primary components of the IntelliCloud™ solution are as follows:

- **Image Processing:** includes image processing modules used for capturing, transforming and managing images of paper documents, including support of distributed and high-volume capture, optical character recognition;
- **Records Management:** addresses needs relating to retention of content through automation and policies, ensuring legal, regulatory and industry compliance for our clients;
- **Workflow:** supports business processes, routing content electronically, assigning work tasks and states (e.g., reviews or approvals), and creating related audit trails;
- **Extended Components:** includes document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party Advanced OCR engine partnership), email and information archiving, packaged application integration, and advanced capture for invoice processing.

## Marketing and Sales

The Company has a multi-channel sales model that directs our sales efforts toward both sales through intermediaries, such as software developers and resellers and multi-function device resellers, and through direct sales. We have developed marketing programs with resellers that facilitate their selling and support of our software solutions. We refer to these resellers as our “channel partners.” We believe that our channel partner strategy improvements have increased the competitive strength of our platform of products. In addition, we have established a set of business solutions templates for specific vertical markets that provide base software configurations which we believe will facilitate our delivery and installation of software to our customers. We believe that these advancements, in the aggregate, will allow us to license and sell our products to a targeted customer base, shortening our sales cycle, making margins more consistent, and allowing us to expand our sales through new channel partnerships and direct customers. We continue to devote significant efforts, in both development and marketing, in enhancing all channels to market.

## Competition and Market Position

The market for our products is competitive, and we expect that competition will continue to intensify as the document solutions markets evolve and potentially consolidate. We believe our primary competitors in our market, the small-to-medium business (SMB) sector, are DocuWare, Square 9, and M-files. The principal competitive factors affecting the market for our software products and services include: (i) vendor and product reputation; (ii) product quality, performance and price; (iii) the availability of software products on multiple platforms; (iv) product scalability; (v) product integration with other enterprise applications; (vi) software functionality and features; (vii) software ease of use; (viii) the quality of professional services, customer support services and training; and (ix) the ability to address specific customer business problems. We believe that the relative importance of each of these factors depends upon the concerns and needs of each specific customer.

We believe that the Company has advantages over our competitors in the small-to-medium business market. In our view, the Company will remain competitive by remaining a focused niche provider with product offerings aligned with buyer-specific requirements. We anticipate that Intellinetics will benefit from four specific advantages already in place:

- Turnkey cloud or premise document workflow solutions targeting specific industry customers with benchmark value-to-price ratio;
- Intel-enabled solution packaging and customer activation model;
- Integrated on-demand solutions library as standard platform feature; and
- Proprietary AuditShield™ compliance management module as a standard platform feature providing customers with a simple way to know if documents required by law or policy are missing.

We believe, with these competitive strengths, that Intellinetics is well positioned as a cloud-based managed document services provider for the small-to-medium business sector.

## Customers

Revenues from the Company’s services to a limited number of customers have accounted for a substantial percentage of the Company’s total revenues. For the twelve months ended December 31, 2017, the Company’s two largest customers, Ohio Department of Commerce, a direct client, and Tiburon, Inc., a reseller, accounted for approximately 10%, each, of the Company’s revenues for that period. For the twelve months ended December 31, 2016, the Company’s two largest customers, Franklin County Data Center, a direct end user, and Tiburon, Inc., a reseller, accounted for approximately 11% and 10%, respectively, of the Company’s revenues for that period.

For the twelve months ended December 31, 2017 and 2016, government contracts represented approximately 41% and 40% of the Company’s net revenues, respectively. A significant portion of the Company’s sales to resellers represent ultimate sales to government agencies. Due to their dependence on state, local and federal budgets, government contracts carry short terms, typically less than 18 months. Since our inception, our contracts with government customers have generally renewed on the original terms and conditions upon expiration.

**Intellectual Property**

Our software and most of the underlying technologies are built on a Microsoft.Net framework. We rely on a combination of copyright, trademark laws, non-disclosure agreements and other contractual provisions to establish and maintain our proprietary intellectual property rights.

Customers license the right to use our software products on a non-exclusive basis. We grant to third parties rights in our intellectual property that allow them to market certain of our products on a non-exclusive or limited-scope exclusive basis for a particular application of the product or to a particular geographic area.

While we believe that our intellectual property as a whole is valuable and our ability to maintain and protect our intellectual property rights is important to our success, we also believe that our business as a whole is not materially dependent on any particular trademark, license, or other intellectual property right.

**Government Regulation**

We are subject to federal, state and local laws and regulations affecting our business. Other than government procurement rules affecting sales to governmental customers, we do not believe that we are subject to any special governmental regulations or approval requirements affecting our products or services. Complying with the regulations and requirements applicable to our business does not entail a significant cost or burden. We believe that we are in compliance in all material respects with all applicable governmental regulations.

**Research and Development**

We design, develop, test, market, license, and support new software products and enhancements of current products. Recent examples of significant trends in the software industry include cloud computing, mobility, social media, and Software as a Service. We continuously monitor our software products and enhancements to remain compatible with standard platforms and file formats. We expense our software development costs as incurred. For the twelve months ending December 31, 2017 and 2016, our research and development costs were \$412,405 and \$386,285, respectively.

## Employees

As of March 27, 2018, we employed a total of 20 individuals; all but two are full-time employees. We believe that relations with our employees are good. None of our employees is represented by a labor union, and we do not have collective bargaining arrangements with any of our employees.

## Executive Officers and Board of Directors

On December 31, 2017, our executive officers and directors included the following:

Name	Age	Title
James F. DeSocio	62	President, Chief Executive Officer, and Director
Matthew L. Chretien	50	Chief Strategy Officer, Chief Technology Officer, Secretary, and Director
Joseph D. Spain	50	Chief Financial Officer, Treasurer
Rye D'Orazio	63	Director
Robert C. Schroeder	51	Director, Chairman of the Board
Roger Kahn	48	Director
Sophie Pibouin	50	Director

James F. DeSocio, President, Chief Executive Officer, and Director. Mr. DeSocio joined the Company on September 25, 2017. Prior to joining the Company, Mr. DeSocio, age 62, served as Chief Revenue Officer at Relayware, LLC, a global provider of Partner Relationship Management solutions, from January 2015 to September 2017. From January 2013 to November 2014, Mr. DeSocio served as Executive Vice President of Operations for XRS Corporation, a fleet management software solutions provider. From October 2007 to September 2012, Mr. DeSocio served as Executive Vice President of Sales and Business Development for Antenna Software, Inc., a business mobility solutions provider. Mr. DeSocio has extensive experience in sales, marketing, international operations, mergers and acquisitions.

Matthew L. Chretien, Chief Strategy Officer, Chief Technology Officer, Director. Mr. Chretien is a co-founder of Intellinetics and has served as Secretary since December 19, 2017, Chief Strategy Officer since September 25, 2017, and Chief Technology Officer since September 2011. Mr. Chretien previously served as Intellinetics' President and Chief Executive Officer from July 2013 to September 2017, and from January 1999 to September 2011; Executive Vice President from September 2011 to July 2013; Chief Financial Officer from September 2011 to September 2012; Treasurer from September 2011 to December 2016; and Vice President from 1996 until 1999. Prior to joining Intellinetics, Mr. Chretien served as the field sales engineer for Unison Industries, a manufacturer of aircraft ignition systems.

Joseph D. Spain, Chief Financial Officer and Treasurer. Mr. Spain joined the Company on October 31, 2016 and was appointed as its Chief Financial Officer on December 1, 2016. Prior to joining the Company, Mr. Spain worked from September 2014 to October 2016 for nChannel, Inc., a software solutions provider for the small-to-medium business retail sector, ultimately serving as Chief Financial Officer of the company. From July 1995 to June 2014, Mr. Spain worked for Mettler-Toledo International, Inc., a global provider of measurement and precision instruments, ultimately serving as Vice President of Finance & Controller for one of the company's operating units.

Rye D'Orazio, Director. Mr. D'Orazio has served as a director of Intellinetics since 2006. Mr. D'Orazio has been a partner at Ray & Barney Group since 2001. From 1995 to 2000, Mr. D'Orazio served as Vice President of Professional Services at Compucom. From 1985 to 1995, Mr. D'Orazio was a partner at NCGroup, which he founded. From 1982 to 1995, Mr. D'Orazio was employed as the Vice President of Professional Services at Triangle Systems, and from 1977 to 1982, Mr. D'Orazio was employed as a systems engineer at Electronic Data Systems.

Robert C. Schroeder, Director. Mr. Schroeder was appointed as a member of our board of directors in September 2013, and as Chairman of the Board on October 5, 2017. Mr. Schroeder is Vice President of Investment Banking at Taglich Brothers and specializes in advisory services and capital raising for small public and private companies. Prior to that, Mr. Schroeder served as Senior Equity Analyst publishing sell-side research on publicly traded companies. Prior to joining Taglich Brothers, he served in various positions in the brokerage and public accounting industry. Mr. Schroeder received a B.S. degree in accounting and economics from New York University. He currently serves on the board of directors of publicly traded Air Industries Group, a manufacturer of aerospace parts and assemblies, and Decisionpoint Systems, Inc., a leading provider and integrator of Enterprise Mobility, Wireless Applications and RFID solutions.

Sophie Pibouin, Director. Ms. Pibouin was appointed as a member of our board of directors on March 20, 2015. Prior to joining the Board, Ms. Pibouin served as Chief Operating Officer, from 2012 to 2014, for SDL, PLC, a global provider of customer experience management software and solutions, having previously worked as a General Manager from 2010 to 2012. From 2006 to 2009, she served as Chief Operating Officer at Chronicle Solutions, Inc., a security software company. From 1990 to 2004, she worked for CA, Inc. (formerly Computer Associates), in a variety of positions including ultimately as Senior Vice President/GM for the Mid-Atlantic Region. She graduated with Honors as a Bachelor in International Commerce from the University of Flaubert in Rouen, France.

Roger Kahn, Director. Mr. Kahn was appointed as a member of our board of directors on October 5, 2017. Mr. Kahn has served as President and Chief Executive Officer of Bridgeline Digital, Inc. ("Bridgeline"), a web content management solutions provider, since May 2016. Mr. Kahn previously served as Co-Interim Chief Executive Officer and President of Bridgeline from December 2015 to May 2016, and as Chief Operating Officer from August 2015 to May 2016. From 2008 to September 2016, Mr. Kahn was a partner at Great Land Holdings, a resort development company. Mr. Kahn received his Ph.D. in Computer Science and Artificial Intelligence from the University of Chicago.

## Available Information

Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended ("Exchange Act"), are available free of charge via our website ([www.intellinetics.com](http://www.intellinetics.com)) as soon as reasonably practicable after they are filed with, or furnished, to the SEC.



## ITEM 1A. RISK FACTORS

Our business and future operating results may be affected by many risks, uncertainties and other factors, including those set forth below and those contained elsewhere in this report. If any of the following risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. When we say that something could have a material adverse effect on us or on our business, we mean that it could have one or more of these effects.

In addition to the other information contained in this report, the following risk factors should be considered carefully in evaluating our company. Our business, financial condition, liquidity or results of operations could be materially adversely affected by any of these risks.

### Risks Relating to Our Business

*Our management expressed going concern issues that note our need for capital and/or revenues to survive as a business.*

The ability of the Company to continue as a going concern is dependent on our ability to raise sufficient capital and further implement our business plan. For the years ended December 31, 2017 and 2016, we had a net loss of \$1,359,337 and \$1,576,311, respectively. The Company has an accumulated deficit of \$16,314,087 as of December 31, 2017. These factors raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our current Independent Registered Public Accounting Firm's reports on our financial statements for the years ended December 31, 2017 and 2016, contained explanatory paragraphs indicating that there was substantial doubt as to the Company's ability to continue as a going concern. Our going concern qualification is expected to significantly affect our ability to raise capital and have a meaningful negative effect on the cost of capital, if we are able to raise any capital at all. If we are unable to raise capital, we will not be able to continue operations.

*Material weaknesses in our internal controls over financial reporting or our failure to remediate such material weakness could result in a material misstatement in our financial statements not being prevented or detected and could affect investor confidence in the accuracy and completeness of our financial statements, as well as our common stock price.*

We have identified a material weakness in our disclosure controls and procedures. As of December 31, 2017, we noted insufficient segregation of duties consistent with control objectives. Accordingly, we have concluded that our internal control over financial reporting was not effective as of December 31, 2017. We have taken steps to remediate this material weakness, but have not yet concluded that such remedial steps have been effective in eliminating the material weakness in disclosure controls and procedures. We have previously concluded that our internal control over financial reporting was not effective as of December 31, 2016 and 2015, due to the absence of technical accounting knowledge and training in the application of GAAP commensurate with our complexity and our financial accounting, and we consider the remedial steps taking during 2016 and 2017 to have addressed this concern. However, additional and different concerns could arise in the future, or previous concerns could resurface. Weaknesses in our disclosure controls and procedures could result in material misstatements in our financial statements not being prevented or detected. We may experience difficulties or delays in completing remediation or may not be able to successfully remediate material weaknesses at all. Any material weakness or unsuccessful remediation could affect our ability to file periodic reports on a timely basis and investor confidence in the accuracy and completeness of our financial statements, which in turn could harm our business and have an adverse effect on our stock price and our ability to raise additional funds.

***Our cash reserves are insufficient, and we require additional capital to fund our future activities. We may not be able to ensure the survival of the business if we fail to raise additional capital on satisfactory terms and in sufficient amounts when the needs arrive.***

As of December 31, 2017, we had cash of \$1,125,921. However, our cash flow is insufficient to cover our cash requirements by approximately \$107,000 per month. We expect that through the next 12 months, the capital requirements to fund our growth, service existing debt obligations, and cover the operating costs as a public company will exceed the cash flows that we currently generate from operations. We will be required to meet our needs from increased internally generated cash flows, debt financings and equity financings. We are dependent on our ability to obtain financing to continue operations and to implement our business plan. The type, timing and terms of the additional financing we may select will depend on, among other things, our cash needs, the availability of other financing sources and prevailing conditions in the financial markets. Any financing would be dilutive to our stockholders. There can be no assurance that any of these sources will be available to us at any time. Even if additional capital is available, we may not be able to obtain debt or equity financing on terms favorable to us. If cash generated by operations is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a reduction or curtailment of our operations.

***We may have to issue additional securities at prices which may result in substantial dilution to our stockholders.***

If we raise additional funds through the sale of equity or convertible debt, our current stockholders' percentage ownership will be reduced. In addition, these transactions may dilute the value of ordinary shares outstanding. We may have to issue securities that may have rights, preferences, and privileges senior to our common stock. We cannot provide assurance that we will be able to raise additional funds on terms acceptable to us, if at all. If future financing is not available or is not available on acceptable terms, we may not be able to fund our future needs, which would have a material adverse effect on our business plans, prospects, results of operations, and financial condition.

***Weakened economic conditions and uncertainty could adversely affect our operating results or financing in ways that may be hard to predict or to defend against.***

Our overall performance depends in part on economic conditions. The United States' and world economies could in the future, as they have in the past, suffer from uncertainty, volatility, disruption, and other adverse conditions, and those conditions would adversely impact the business community and financial markets. There is no assurance that economic and business conditions will not be adverse in the future. Moreover, any instability in the global economy affects countries, including the United States, with varying levels of severity, which makes the impact on our business complex and unpredictable. During adverse economic conditions, many customers may delay or reduce technology purchases. Contract negotiations may become more protracted, or conditions could result in reductions in sales of our products, longer sales cycles, pressure on our margins, difficulties in collection of accounts receivable or delayed payments, increased default risks associated with our accounts receivable, slower adoption of new technologies, and increased price competition. Potential price inflation in the United States may increase the cost we incur to provide our solutions and may reduce profit margins on agreements that govern our provision of products or services to customers over a multi-year period. In addition, any deterioration of the United States and global credit markets could adversely impact our ability to complete sales of our products and services, including maintenance and support renewals. Any of these prolonged events, as well as a general weakening of, or declining corporate confidence in, the United States and global economy, or a curtailment in government or corporate spending could delay or decrease customer purchases, and adversely affect our business, financial condition, and results of operations.

Businesses and industries throughout the world are very tightly connected to each other. Thus, financial developments seemingly unrelated to us or to our industry may adversely affect us over the course of time. For example, material increases in applicable interest rate benchmarks may increase the payment costs for any of our debt. Credit contraction in financial markets may hurt our ability to access credit in the event that we require significant access to credit for other reasons. Similarly, volatility in our stock price due to seemingly unrelated financial developments could hurt our ability to raise capital for the financing of acquisitions or other reasons. Any of these events, or any other events caused by turmoil in domestic or international financial markets, may have a material adverse effect on our business, operating results, and financial condition.

***We may not be able to generate sufficient cash to service any indebtedness that we may incur from time to time, which could force us to sell assets, cease operations, or take other detrimental actions for our business.***

Our ability to make scheduled payments on or to refinance any debt obligations that we may incur depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business, and other factors beyond our control. We cannot ensure that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on any indebtedness.

If our cash flows and capital resources are at any time insufficient to fund our debt service obligations, we may be forced to reduce or delay investments and capital expenditures, or to sell assets, seek additional capital, restructure or refinance our indebtedness, or reduce or cease operations. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other operating obligations.

***The terms of the Company's convertible notes will restrict our financing flexibility.***

The terms of convertible notes issued by the Company in 2016 and 2017 contain standard negative covenants customary for transactions of this type. These negative covenants may preclude or restrict the ability of the Company to effect future debt and convertible debt financings without the prior approval of holders of the convertible notes. The events of default are also customary for transactions of this type, including default in timely payment of principal or interest, failure to observe or perform any covenant or agreement contained in the convertible note and other transaction documents, the commencement of bankruptcy or insolvency proceedings, failure to timely deliver conversion shares underlying the convertible notes, and failure to timely file Exchange Act filings. In the event that the Company triggers one of these event of default provisions, the holders of the convertible notes have the ability to foreclose on substantially all of the assets of the Company which would result in the cessation of our operations.

***Our revenues have been unstable, which creates difficulty in generating forecasts and managing profitability, and may hinder investment.***

Our revenues have been unstable. Accordingly, it is difficult for us to manage and forecast our gross profit and our earnings. These conditions may adversely impact our future financial performance and may hinder our ability to attract investors.

***The length of our sales cycle can fluctuate significantly, resulting in significant fluctuations in revenue recognition.***

The decision by a customer to purchase our products often involves a comprehensive implementation process across the customer's network or networks. As a result, licenses of these products may entail a significant commitment of resources by prospective customers, accompanied by the attendant risks and delays frequently associated with significant expenditures and lengthy sales cycles and implementation procedures. Given the significant investment and commitment of resources required by an organization to implement the type of software we supply, our sales cycle may be longer compared to other companies within our own industry, as well as companies in other industries. It may take several months, or even several quarters, for marketing opportunities to materialize. If a customer's decision to license our software is delayed or if the installation of our products takes longer than originally anticipated, the date on which we may recognize revenues from these licenses would be delayed. Such delays could cause our revenues to be lower than expected in a particular period.

***Any significant reduction in the sales efforts or cooperative efforts from our partners could materially impact our revenues.***

We rely on close cooperation with our reseller and channel partners for sales and product development as well as for the optimization of opportunities that arise in our competitive environment. In particular, the success of our reseller program, IntelliCloud, is entirely dependent upon our relationships with resellers of multi-functional devices, which are currently being purchased by current and potential customers in our target markets. Our success will depend, in part, upon our ability to maintain access to existing channels of distribution and to gain access to new channels if and when they develop. We may not be able to retain a sufficient number of our existing partners or develop a sufficient number of future partners. We are unable to predict the extent to which our partners will be successful in marketing and licensing our products. A reduction in partner cooperation or sales efforts, or a decline in the number of channels, could materially reduce revenues.

***We need to continue to develop new technologically-advanced products that successfully integrate with the software products and enhancements used by our customers.***

Our success depends upon our ability to design, develop, test, market, license, and support new software products and enhancements of current products on a timely basis in response to both competitive threats and marketplace demands. Recent examples of significant trends in the software industry include cloud computing, mobility, social media, networking, browser, and software as a service. In addition, software products and enhancements must remain compatible with standard platforms and file formats. Often, we must integrate software licensed or acquired from third parties with our proprietary software to create or improve our products. If we are unable to achieve a successful integration with third-party software, we may not be successful in developing and marketing our new software products and enhancements. If we are unable to successfully integrate third-party software to develop new software products and enhancements to existing products, or to complete products currently under development which we license or acquire from third parties, our operating results will materially suffer. In addition, if the integrated or new products or enhancements do not achieve acceptance by the marketplace, our operating results will materially suffer. Also, if new industry standards emerge that we do not anticipate or adapt to, our software products could be rendered obsolete and, as a result, our business and operating results, as well as our ability to compete in the marketplace, would be materially harmed.

***If our products and services do not gain market acceptance, our operating results may be negatively affected.***

We intend to pursue our strategy of growing the capabilities of our document solutions software offerings through our proprietary research and the development of new product offerings. In response to customer demand, it is important to our success that we continue: (i) to enhance our products, and (ii) to seek to set the standard for document solutions capabilities in the small-to-medium market. The primary market for our software and services is rapidly evolving, due to the nature of the rapidly changing software industry, which means that the level of acceptance of products and services that have been released recently or that are planned for future release by the marketplace is not certain. If the markets for our products and services fail to develop, develop more slowly than expected or become subject to increased competition, our business may suffer. As a result, we may be unable to: (i) successfully market our current products and services, (ii) develop new software products, services and enhancements to current products and services, (iii) complete customer installations on a timely basis, or (iv) complete products and services currently under development. In addition, increased competition could put significant pricing pressures on our products, which could negatively impact our margins and profitability. If our products and services are not accepted by our customers or by other businesses in the marketplace, our business and operating results will be materially affected.

***If we are unable to continue to attract new customers, our growth could be slower than we expect.***

We believe that our future growth depends in part upon increasing our customer base. Our ability to achieve significant growth in revenue in the future will depend, in part, upon continually attracting new customers and obtaining subscription renewals to our solutions from those customers. If we fail to attract new customers our revenue may grow more slowly than expected and our business may be harmed.

***A significant downturn in our business may not be immediately reflected in our operating results because of the way we recognize revenue.***

We recognize revenue from subscription agreements ratably over the terms of these agreements, which are typically one year. As a result, a significant portion of the revenue we report in each quarter is generated from customer agreements entered into during previous periods, which is reflected as deferred revenue on our balance sheet. Consequently, a decline in new or renewed subscriptions, or a downgrade of renewed subscriptions to less-expensive editions, in any one quarter may not be fully reflected in our revenue in that quarter, and may negatively affect our revenue in future quarters. If contracts having significant value expire and are not renewed or replaced at the beginning of a quarter or are downgraded, our revenue may decline significantly in that quarter and subsequent quarters.

***Our profitability in the short term may be affected by rapid growth in our customer base.***

Expenses, such as sales commissions, are generally incurred upfront; however most of our revenue is recognized over the life of the applicable agreements. Therefore, increased sales will result in our recognition of more costs than revenue during the early periods covered by such agreements, even in cases where the agreements are expected to be profitable for us over their full terms. As a result, our short-term operating results may suffer.

***If we are unable to increase market awareness of our company and our solutions, our revenue may not continue to grow, or may decline.***

Market awareness of our capabilities and solutions is essential to our ability to generate new leads for expanding our business and our continued growth. If we fail to sufficiently invest in our marketing programs or they are unsuccessful in creating market awareness of our company and solutions, our business may be harmed.

***Reduced IT or enterprise software spending may adversely impact our business.***

Our business depends on the overall demand for IT and enterprise software spend and on the economic health of our current and prospective customers. Any meaningful reduction in IT or enterprise software spending or weakness in the economic health of our current and prospective customers could harm our business in a number of ways, including longer sales cycles and lower prices for our solutions.

***Security breaches may harm our business.***

Any security breaches, unauthorized access, unauthorized usage, virus or similar breach or disruption could result in loss of confidential information, damage to our reputation, early termination of our contracts, litigation, regulatory investigations or other liabilities. Our clients may use our products and services to handle personally identifiable information, sensitive personal information, or information that is otherwise confidential. If our security measures or those of our third-party data centers are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, someone obtains unauthorized access to customer data, our reputation could be damaged, our business may suffer and we could incur significant liability.

The United States has laws and regulations relating to data privacy, security, and retention and transmission of information. We have certain measures to protect our information systems against unauthorized access and disclosure of our confidential information and confidential information belonging to our customers. We have policies and procedures in place dealing with data security and records retention. However, there is no assurance that the security measures we have put in place will be effective in every case.

There has been an increase in the number of private privacy-related lawsuits filed against companies in recent years. There has also been an increase in the incidence of data breaches in public companies operating in the US, resulting in unfavorable publicity and high amounts of damages against the breached companies, including the cost of obtaining credit monitoring services for all persons whose information was compromised. In addition, we are unable to predict what additional legislation or regulation in the area of privacy of personal information could be enacted and what effect that could have on our operations and business. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy-related matters, even if unfounded and even if we are in compliance with applicable laws, could damage our reputation and harm our business.

Breaches, or perceived breaches, in security could result in a negative impact for us and for our customers, potentially affecting our business, assets, revenues, brand, and reputation, and resulting in penalties, fines, litigation, and other potential liabilities, in each case depending upon the nature of the information disclosed. These risks to our business may increase as we expand the number of products and services we offer.

***Our business may become substantially dependent upon the continued adoption of cloud-based software solutions.***

We expect to derive a significant part of our revenue from the sale of subscriptions for our cloud-based platform. We do not know whether the trend of adoption of enterprise cloud-based software solutions we have experienced in the past will continue in the future. Many organizations have invested substantial personnel and financial resources to integrate on-premise software tools into their businesses, and some have been reluctant or unwilling to migrate to cloud-based software solutions. Furthermore, some organizations, particularly enterprises upon which we are dependent, have been reluctant or unwilling to use cloud-based solutions because they have concerns regarding the risks associated with the security of their data and the reliability of the technology delivery model associated with these solutions. In addition, if we or other cloud-based providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for cloud-based software solutions as a whole, including for our solutions, may be negatively impacted. If the adoption of cloud-based software solutions does not continue at the rate we anticipate, the market for these solutions may stop developing or may develop more slowly than we expect, either of which would harm our operating results.

***Our data center infrastructure capacity may affect our service.***

As we experience growth in the number of users and amount of data that our hosting infrastructure supports, we will need to acquire additional hosting infrastructure. We seek to maintain excess capacity to facilitate the rapid provision of new customer deployments and the expansion of existing customer deployments. However, the provisioning of new data center infrastructure requires lead time. If we do not accurately predict our infrastructure capacity requirements with sufficient lead time, our customers could experience service impairment that may subject us to financial penalties and liabilities and cause us to lose customers. If our data center infrastructure capacity fails to keep pace with increased subscriptions, customers may experience delays or reductions in the quality of our service as we seek to obtain additional capacity, which could harm our reputation and harm our business.

***Any disruption of service at data centers that house our equipment and deliver our solutions could harm our business.***

Our users expect to be able to access our solutions 24-hours a day, seven-days a week, without interruption. We have computing and communications hardware operations located in data centers owned and operated by third parties. We do not control the operation of these data centers and we are therefore vulnerable to any security breaches, power outages or other issues the data centers experience. We expect that we will experience interruptions, delays and outages in service and availability from time to time.

The owners of our data centers have no obligation to renew agreements with us on commercially reasonable terms, or at all. If we are unable to renew these agreements on commercially reasonable terms, we may be required to move to new data centers, and we may incur significant costs and possible service interruption in connection with doing so.

These data centers are vulnerable to damage or interruption from human error, malicious acts, earthquakes, hurricanes, tornados, floods, fires, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures and similar events. The occurrence of a natural disaster or an act of terrorism, vandalism or other misconduct, or a decision to close the data centers without adequate notice or other unanticipated problems could result in lengthy interruptions in availability of our solutions.

Any changes in third-party service levels at our data centers or any errors, defects, disruptions or other performance problems with our solutions could harm our reputation and may damage our customers' businesses. Interruptions in availability of our solutions might reduce our revenue, cause us to issue credits to customers, subject us to potential liability, and cause customers to terminate their subscriptions or decide not to renew their subscriptions with us.

***If our existing customers fail to renew their support agreements, or if customers do not license updated products on terms favorable to us, our revenues could be adversely affected.***

We currently derive a significant portion of our overall revenues from maintenance services and software subscriptions, and we depend on our installed customer base for future revenue from maintenance services and software subscriptions and licenses of updated products. The IT industry generally has been experiencing increasing pricing pressure from customers when purchasing or renewing support agreements. Moreover, the trend towards consolidation in certain industries that we serve, such as financial services and telecommunications, could result in a reduction of the software and hardware being serviced and put pressure on our maintenance terms with customers who have merged. Given this environment, there can be no assurance that our current customers will renew their maintenance agreements or agree to the same terms when they renew, which could result in our reducing or losing maintenance fees. If our existing customers fail to renew their maintenance agreements, or if we are unable to generate additional maintenance fees through the licensing of updated products to existing or new customers, our business and future operating results could be adversely affected.

***The loss of a major customer or the failure to collect a large account receivable could negatively affect our results of operations and financial condition.***

Revenues from a limited number of customers have accounted for a substantial percentage of our total revenues. Our two largest clients account for approximately 10%, each, of our revenues for the years ending December 31, 2017 and 2016. For the years ended December 31, 2017 and 2016, government contracts represented approximately 41% and 40% of our net revenues, respectively. For the twelve months ended December 31, 2017 and 2016, the most significant of these government contracts, represented approximately 10% of our net revenues. Due to their dependence on state, local and federal budgets, government contracts carry short terms, typically less than 18 months. The loss of a meaningful percentage of government contracts could materially affect our business and operating results

***Our investment in our current research and development efforts may not provide a sufficient, timely return.***

The development of document solutions software products is a costly, complex, and time-consuming process, and the investment in document solutions software product development often involves a long wait until a return is achieved on such an investment. When cash is available, we make and will continue to make significant investments in software research and development and related product opportunities. Investments in new technology and processes are inherently speculative. Commercial success depends on many factors including the degree of innovation of the products developed through our research and development efforts, sufficient support from our strategic partners, and effective distribution and marketing. Accelerated product introductions and short product life cycles require high levels of expenditures for research and development. These expenditures may adversely affect our operating results if they are not offset by increased revenues. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts in order to maintain our competitive position. However, significant revenues from new product and service investments may not be achieved for a number of years, if at all. Moreover, new products and services may not be profitable, and even if they are profitable, operating margins for new products and businesses may not be as high as the margins we have experienced for our current or historical products and services.

***Product development is a long, expensive, and uncertain process, and we may terminate one or more of our development programs.***

We may determine that certain product candidates or programs do not have sufficient potential to warrant the continued allocation of resources. Accordingly, we may elect to terminate one or more of our programs for such product candidates. If we terminate a product in development in which we have invested significant resources, our prospects may suffer, as we will have expended resources on a project that does not provide a return on our investment and we may have missed the opportunity to have allocated those resources to potentially more productive uses, and this may negatively impact our business operating results or financial condition.

***The use of open-source software in our products may expose us to the risk of having to disclose the source code to our product, rendering our software no longer proprietary and reducing or eliminating its value.***

Certain open-source software is licensed pursuant to license agreements that require a user who distributes the open-source software as a component of the user's software to disclose publicly part or all of the source code to the user's software. This effectively renders what was previously proprietary software open-source software. As competition in our markets increases, we must strive to be cost-effective in our product development activities. Many features we may wish to add to our products in the future may be available as open-source software, and our development team may wish to make use of this software to reduce development costs and speed up the development process. While we carefully monitor the use of all open-source software and try to ensure that no open-source software is used in such a way as to require us to disclose the source code to the related product, such use could inadvertently occur. Additionally, if a third party has incorporated certain types of open-source software into its software but has failed to disclose the presence of such open-source software, and we embed that third-party software into one or more of our products, we could, under certain circumstances, be required to disclose the source code to our product. This could have a material adverse effect on our business.

***Failure to protect our intellectual property could harm our ability to compete effectively.***

We are highly dependent on our ability to protect our proprietary technology. We rely on a combination of intellectual property laws, trademark laws, as well as non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights. We intend to protect our rights vigorously; however, there can be no assurance that these measures will be successful. Enforcement of our intellectual property rights may be difficult or cost prohibitive. While U.S. copyright laws may provide meaningful protection against unauthorized duplication of software, software piracy has been, and is expected to be, a persistent problem for the software industry, and piracy of our products represents a loss of revenue to us. Certain of our license arrangements may require us to make a limited confidential disclosure of portions of the source code for our products, or to place such source code into escrow for the protection of another party. Although we will take considerable precautions, unauthorized third parties, including our competitors, may be able to: (i) copy certain portions of our products, or (ii) reverse engineer or obtain and use information that we regard as proprietary. Also, our competitors could independently develop technologies that are perceived to be substantially equivalent or superior to our technologies. Our competitive position may be adversely affected by our possible inability to effectively protect our intellectual property.

***Any claim that we infringe on a third party's intellectual property could materially increase costs and materially harm our ability to generate future revenues and profits.***

Claims of infringement are becoming increasingly common as the software industry develops and as related legal protections, including patents are applied to software products. Although we are not aware of any infringement on the rights of third parties, third parties may assert infringement claims against us in the future. Although most of our technology is proprietary in nature, we do include certain third-party software in our products. In these cases, this software is licensed from the entity holding the intellectual property rights. Although we believe that we have secured proper licenses for all third-party software that is integrated into our products, third parties may assert infringement claims against us in the future. The third parties making these assertions and claims may include non-practicing entities (known as "patent trolls") whose business model is to obtain patent-licensing revenues from operating companies, such as ours. Any such assertion, regardless of merit, may result in litigation or may require us to obtain a license for the intellectual property rights of third parties. Such licenses may not be available, or they may not be available on reasonable terms. In addition, such litigation could be time-consuming, disruptive to our ability to generate revenues or enter into new market opportunities, and may result in significantly increased costs as a result of our defense against those claims or our attempt to license the intellectual property rights or rework our products to avoid infringement of third-party rights to ensure they comply with judicial decisions. Our agreements with our partners and end-users typically contain provisions that require us to indemnify them, with certain limitations on the total amount of such indemnification, for damages sustained by them as a result of any infringement claims involving our products. Any of the foregoing results of an infringement claim could have a significant adverse impact on our business and operating results, as well as our ability to generate future revenues and profits.

***The loss of licenses to use third-party software or the lack of support or enhancement of such software could adversely affect our business.***

We currently depend upon a limited number of third-party software products. If such software products were not available, we might experience delays or increased costs in the development of our products. In certain instances, we rely on software products that we license from third parties, including software that is integrated with internally-developed software, and which is used in our products to perform key functions. These third-party software licenses may not continue to be available to us on commercially reasonable terms, and the related software may not continue to be appropriately supported, maintained, or enhanced by the licensors. The loss by us of the license to use, or the inability by licensors to support, maintain, and enhance any of such software, could result in increased costs or in delays or reductions in product shipments until equivalent software is developed or licensed and integrated with internally-developed software. Such increased costs or delays or reductions in product shipments could adversely affect our business.

***Current and future competitors could have a significant impact on our ability to generate future revenues and profits.***

The markets for our products are intensely competitive, and are subject to rapid technological change and other pressures created by changes in our industry. The convergence of many technologies has resulted in unforeseen competitors arising from companies that were traditionally not viewed as threats to our marketplace. We expect competition to increase and intensify in the future as the pace of technological change and adaptation quickens, and as additional companies enter our markets, including those competitors who offer similar products and services to ours, but offer them through a different form of delivery. Numerous releases of competitive products have occurred in recent history and are expected to continue in the future. We may not be able to compete effectively with current competitors and potential entrants into our marketplace. We could lose market share if our current or prospective competitors: (i) introduce new competitive products, (ii) add new functionality to existing products, (iii) acquire competitive products, (iv) reduce prices, or (v) form strategic alliances with other companies. If other businesses were to engage in aggressive pricing policies with respect to competing products, or if the dynamics in our marketplace resulted in increased bargaining power by the consumers of our products and services, we would need to lower the prices we charge for the products we offer. This could result in lower revenues or reduced margins, either of which could materially and adversely affect our business and operating results. Additionally, if prospective consumers choose other methods of document solutions delivery, different from those that we offer, our business and operating results could also be materially and adversely affected.

***Consolidation in the industry, particularly by large, well-capitalized companies, could place pressure on our operating margins which could, in turn, have a material adverse effect on our business.***

Acquisitions by large, well-capitalized technology companies have changed the marketplace for our goods and services by replacing competitors that are comparable in size to our company with companies that have more resources at their disposal to compete with us in the marketplace. In addition, other large corporations with considerable financial resources either have products that compete with the products we offer, or have the ability to encroach on our competitive position within our marketplace. These companies have considerable financial resources, channel influence, and broad geographic reach; thus, they can engage in competition with our products and services on the basis of sales price, marketing, services, or support. They also have the ability to introduce items that compete with our maturing products and services. The threat posed by larger competitors and their ability to use their better economies of scale to sell competing products and services at a lower cost may materially reduce the profit margins we earn on the goods and services we provide to the marketplace. Any material reduction in our profit margin may have a material adverse effect on the operations or finances of our business, which could hinder our ability to raise capital in the public markets at opportune times for strategic acquisitions or general operational purposes, which may prevent effective strategic growth or improved economies of scale or put us at a disadvantage to our better-capitalized competitors.

***We must manage our internal resources during periods of company growth, or our operating results could be adversely affected.***

The document solutions market has continued to evolve at a rapid pace. If we are successful in growing the Company, any growth will place significant strains on our administrative and operational resources, and increase demands on our internal systems, procedures and controls. Our administrative infrastructure, systems, procedures and controls may not adequately support our operations. In addition, our management may not be able to achieve a rapid, effective execution of the product and business initiatives necessary to successfully implement our operational and competitive strategy. If we are unable to manage growth effectively, our operating results will likely suffer which may, in turn, adversely affect our business.

***If we are not able to attract and retain top employees, our ability to compete may be harmed.***

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of any of our executive officers or other key employees could significantly harm our business. Our success is also highly dependent upon our continuing ability to identify, hire, train, retain, and motivate highly-qualified management, technical, sales, and marketing personnel. In particular, the recruitment of top research developers and experienced salespeople remains critical to our success. Competition for such people is intense, substantial, and continuous, and we may not be able to attract, integrate, or retain highly-qualified technical, sales, or managerial personnel in the future. In addition, in our effort to attract and retain critical personnel, we may experience increased compensation costs that are not offset by either improved productivity or higher prices for our products or services.

***The market price of our common stock may limit the appeal of certain alternative compensation structures that we might offer to the high-quality employees we seek to attract and retain.***

If the market price of our common stock performs poorly, such performance may adversely affect our ability to retain or attract critical personnel. For example, if we were to offer options to purchase shares of our common stock as part of an employee's compensation package, the attractiveness of such a compensation package would be highly dependent upon the performance of our common stock.

In addition, any changes made to any of our compensation practices which are made necessary by governmental regulations or competitive pressures could adversely affect our ability to retain and motivate existing personnel and recruit new personnel. For example, any limit to total compensation which may be prescribed by the government, or any significant increases in personal income tax levels in the United States, may hurt our ability to attract or retain our executive officers or other employees whose efforts are vital to our success.

***Any unauthorized, and potentially improper, actions of our personnel could adversely affect our business, operating results, and financial condition.***

The recognition of our revenue depends on, among other things, the terms negotiated in our contracts with our customers. Our personnel may act outside of their authority and negotiate additional terms without our knowledge. We have implemented policies to help prevent and discourage such conduct, but there can be no assurance that such policies will be followed. For instance, in the event that our sales personnel negotiate terms that do not appear in the contract and of which we are unaware, whether the additional terms are written or verbal, we could be prevented from recognizing revenue in accordance with our plans. Furthermore, depending on when we learn of unauthorized actions and the size of the transactions involved, we may have to restate revenue for a previously reported period, which would seriously harm our business, operating results, and financial condition.

***Unexpected events may materially harm our ability to align our incurrence of expenses with our recognition of revenues.***

We incur operating expenses based upon anticipated revenue trends. Because a high percentage of these expenses are relatively fixed, a delay in recognizing revenues from transactions related to these expenses (which delay may be due to the factors described elsewhere in this section or may be due to other factors) could cause significant variations in operating results from quarter to quarter, and such a delay could materially reduce operating income. If these expenses are not subsequently matched by revenues, our business, financial condition, or results of operations could be materially and adversely affected.

***We may fail to achieve our financial forecasts due to the inherent difficulties in making predictions of market activity.***

Our revenues and particularly our new software license revenues are difficult to forecast, and, as a result, our actual operating results can differ significantly from our estimates, and such differences may be material. We use an internal customer relationship management system to manage all of our "sales funnel" activities. Information relating to existing and potential customers is updated weekly. The system provides us with estimates of future sales from existing and potential customers, the effectiveness of which relies solely on our ability to predict sales activity, both in a particular quarter and over longer periods of time. Many factors may affect actual sales activity, such as weakened economic conditions, which may cause our customers and potential customers to delay, reduce, or cancel IT-related purchasing decisions, and the tendency of some IT customers to wait until the end of a fiscal period in the hope of obtaining more favorable terms. If actual sales activity differs from our estimate, then we may have planned our activities and budgeted incorrectly and this may adversely affect our business and results of operations.



***Our products may contain defects that could harm our reputation, be costly to correct, delay revenues, and expose us to litigation.***

Our products are highly complex and sophisticated and, from time to time, may contain design defects or software errors that are difficult to detect and correct. Errors may be found in new software products or improvements to existing products after delivery to our customers. If these defects are discovered, we may not be able to successfully correct such defects in a timely manner. In addition, despite the extensive tests we conduct on all of our products, we may not be able to fully simulate the environment in which our products will operate and, as a result, we may be unable to adequately detect the design defects or software errors which may become apparent only after the products are installed in an end-user's network. The occurrence of errors and failures in our products could result in the delay or the denial of market acceptance of our products, and alleviating such errors and failures may require us to make significant expenditure of our resources. The harm to our reputation resulting from product errors and failures may be materially damaging. Because we regularly provide a warranty with our products, the financial impact of fulfilling warranty obligations may be significant in the future. Our agreements with our strategic partners and end-users typically contain provisions designed to limit our exposure to claims. These agreements regularly contain terms such as the exclusion of all implied warranties and the limitation of the availability of consequential or incidental damages. However, such provisions may not effectively protect us against claims and the attendant liabilities and costs associated with such claims. Accordingly, any such claim could negatively affect our business, operating results or financial condition.

***A claim for damages, regardless of our responsibility for the failure, could expose us to liability.***

We provide business management solutions that we believe are critical to the operations of our customers' businesses and provide benefits that may be difficult to quantify. Any failure of a customer's system installed by us or of the services offered by us could result in a claim for substantial damages against us, regardless of our responsibility for the failure. Although we attempt to limit our contractual liability for damages resulting from negligent acts, errors, mistakes, or omissions in rendering our services, we cannot assure you that the limitations on liability we include in our agreements will be enforceable in all cases, or that those limitations on liability will otherwise protect us from liability for damages. There can be no assurance that any insurance coverage we may have in place will be adequate or that current coverages will remain available at acceptable costs. Successful claims brought in excess of any insurance coverage could seriously harm our business, prospects, financial condition, and results of operations. Even if not successful, large claims against us could result in significant legal and other costs and may be a distraction to our senior management.

***Our products rely on the stability of infrastructure software that, if not stable, could negatively impact the effectiveness or reliability of our products, resulting in harm to our reputation and business.***

Our development of internet and intranet applications depends and will continue to depend on the stability, functionality, and scalability of the infrastructure software of the underlying internet and intranet. If weaknesses in such infrastructure exist, we may not be able to correct or compensate for such weaknesses. If we are unable to address weaknesses resulting from problems in the infrastructure software such that our products do not meet customer needs or expectations, our reputation and, consequently, our business may be significantly harmed.

In addition, our business and operations are highly automated, and a disruption or failure of our systems may delay our ability to complete sales and to provide services. A major disaster or other catastrophic event that results in the destruction or disruption of any of our critical business or information technology systems could severely affect our ability to conduct normal business operations, which may materially and adversely affect our future operating results.

***We may become involved in litigation that may materially adversely affect us.***

From time to time in the ordinary course of our business, we may become involved in various legal proceedings, including commercial, product liability, employment, class action, and other litigation and claims, as well as governmental and other regulatory investigations and proceedings. Such matters can be time-consuming, divert management's attention and resources, and cause us to incur significant expenses. Furthermore, because litigation is inherently unpredictable, the results of any such actions may have a material adverse effect on our business, operating results, or financial condition.

***Our contracts with government clients subject us to risks including early termination, audits, investigations, sanctions, and penalties.***

A significant portion of our revenues comes from contracts with the U.S. government, state and local governments, and their respective agencies, which may terminate most of these contracts at any time, without cause. The percentage of revenue from governmental contracts as a percentage of total revenue for the periods ended December 31, 2017 and December 31, 2016 were 41% and 40%, respectively. At this time, governments and their agencies are operating under increased pressure to reduce spending. Any federal government contracts are subject to the approval of appropriations being made by the U.S. Congress to fund the expenditures under those contracts. Similarly, any contracts at the state and local levels are subject to government funding authorizations. Additionally, government contracts are generally subject to audits and investigations that could result in various civil and criminal penalties and administrative sanctions, including termination of contracts, refund of a portion of fees received, forfeiture of profits, suspension of payments, fines and suspensions, or debarment from future government business.

***The Company is subject to the reporting requirements of federal securities laws, causing the Company to make significant compliance-related expenditures that may divert resources from other projects, thus impairing its ability to grow.***

In 2012, Intellinetics Ohio became a subsidiary of the Company and, accordingly, Intellinetics Ohio is subject to the information and reporting requirements of the Exchange Act, and other federal securities laws, including the Sarbanes-Oxley Act. The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the Commission and furnishing audited reports to stockholders causes our expenses to be higher than they would have been if Intellinetics Ohio had remained privately held and had not become our subsidiary.

The Sarbanes-Oxley Act and rules subsequently implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, we expect these rules and regulations to continue to keep our compliance costs high in 2017 and beyond, and to make certain activities more time-consuming and costly. As a public company, we also expect that these rules and regulations may make it more difficult and expensive for us to obtain director and officer liability insurance in the future, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers.

***The elimination of monetary liability against our directors, officers, agents and employees under Nevada law, and the existence of indemnification rights to such persons, may result in substantial expenditures by the Company and may discourage lawsuits against our directors, officers, agents and employees.***

Our articles of incorporation and bylaws contain provisions permitting us to eliminate the personal liability of our directors, officers, agents and employees to the Company and its stockholders for damages for breach of fiduciary duty to the extent provided by Nevada law. We may also have contractual indemnification obligations under our employment agreements with our officers. The foregoing indemnification obligations could result in the Company incurring substantial expenditures to cover the cost of settlement or damage awards against directors, officers, agents and employees, which we may be unable to recoup. These provisions and resultant costs may also discourage our Company from bringing a lawsuit against certain individuals for breaches of their fiduciary duties, and may similarly discourage the filing of derivative litigation by our stockholders against our directors, officers, agents and employees even though such actions, if successful, might otherwise benefit the Company and stockholders.

#### **Risks Relating to Our Common Stock**

***Shares of our common stock that have not been registered under the Securities Act, regardless of whether such shares are restricted or unrestricted, are subject to resale restrictions imposed by Rule 144 of the Securities Act.***

Pursuant to Rule 144 of the Securities Act, a “shell company” is defined as a company that has no or nominal operations, and either no or nominal assets, assets consisting solely of cash and cash equivalents, or assets consisting of any amount of cash and cash equivalents and nominal other assets. As such, we were a shell company pursuant to Rule 144 prior to 2012. Even though we are no longer a shell company, investors may be reluctant to invest in our securities because securities of a former shell company may not be as freely tradable as securities of companies that are not former “shell companies”. In addition, since the Company is a former shell company, stockholders with restricted securities cannot rely upon Rule 144 for sales of restricted securities in the event that the Company is not current in its filing obligations under the Exchange Act.

***Management exercises significant control over matters requiring stockholder approval which may result in the delay or prevention of a change in our control.***

The officers, directors, and key employees of Intellinetics hold approximately 26% of the beneficial ownership of our outstanding common stock. As a result, the management and key employees of Intellinetics have a significant portion of the voting power over all matters requiring stockholder approval, including the election of our directors and approval of significant corporate transactions. This concentration of ownership in the management and key employees of Intellinetics may also have the effect of delaying or preventing a change in control of the Company that may be otherwise viewed as beneficial by stockholders other than Intellinetics’ management.

***Our shares are quoted on the OTCQB and are subject to limited trading, a high degree of volatility, and liquidity risk.***

Our common stock is currently quoted on the OTCQB. Shares of our common stock have had very limited and sporadic trading in the past. As such, we believe our stock price to be more volatile and the share liquidity characteristics to be of higher risk than if we were listed on one of the national exchanges. Due to this volatility, our stock price as quoted by the OTCQB may not reflect an actual or perceived value of our common stock. In the past, several days have passed between trades in our common stock, meaning that at any given time, there may be few or no investors interested in purchasing our common stock at or near ask prices. This limited trading, volatility, and liquidity risk is attributable to 1) the fact that we are a small company relatively unknown to stock analysts, brokers, and institutional or other investors, and 2) analysts, brokers, and investors may also be hesitant to follow a company such as ours that faces substantial doubt about its ability to continue as a going concern. Finally, if our stock were no longer quoted on the OTCQB, the ability to trade our stock would become even more limited and investors might not be able to sell their shares. Consequently, investors must be prepared to bear the economic risk of holding the securities for an indefinite period of time. There is no assurance that a more active market for our common stock will develop or be sustained, which limits the liquidity of our common stock, and could have a material adverse effect on the price of our common stock and our ability to raise capital.

***Shares eligible for future sale may adversely affect the market price of our common stock.***

From time to time, certain of our stockholders may be eligible to sell all or some of their shares of common stock by means of ordinary brokerage transactions in the open market pursuant to Rule 144 of the Securities Act, promulgated under the Securities Act, subject to certain limitations. Any substantial sale of our common stock pursuant to Rule 144 may have an adverse effect on the market price of our common stock.

***The price of our common stock may fluctuate significantly.***

The common stock of public companies can experience extreme price and volume fluctuations. These fluctuations often have been unrelated or out of proportion to the operating performance of such companies. We expect our stock price to be similarly volatile. These broad market fluctuations may continue and could harm our stock price. Any negative change in the public's perception of the prospects of our business or companies in our industry could also depress our stock price, regardless of our actual results. Factors affecting the trading price of our common stock may include:

- Variations in operating results;
- Announcements of technological innovations, new products or product enhancements, strategic alliances, or significant agreements by us or by competitors;
- Recruitment or departure of key personnel;
- Litigation, legislation, regulation, or technological developments that adversely affect our business; and
- Market conditions in our industry, the industries of our customers, and the economy as a whole.

Further, the stock market in general, and securities of smaller companies in particular, can experience extreme price and volume fluctuations. Continued market fluctuations could result in extreme volatility in the price of our common stock, which could cause a decline in the value of our common stock. You should also be aware that price volatility might be worse if the trading volume of our common stock is low.

***The volatility of our stock price could lead to losses by stockholders.***

The market price of our common stock may be subject to wide fluctuations in response to: (i) quarterly and annual variations in operating results, (ii) announcements of technological innovations or new products that are relevant to our industry, or (iii) other events or factors. In addition, financial markets experience significant price and volume fluctuations that particularly affect the market prices of equity securities of many technology companies. These fluctuations have often resulted from the failure of such companies to meet market expectations in a particular quarter, and thus such fluctuations may or may not be related to the underlying operating performance of such companies. Broad market fluctuations or any failure of our operating results in a particular quarter to meet market expectations may adversely affect the market price of our common stock. Occasionally, periods of volatility in the market price of a company's securities may lead to the institution of securities class action litigation against a company. Due to the volatility of our stock price, we may be the target of such securities litigation in the future. Such legal action could result in substantial costs to defend our interests and a diversion of management's attention and resources, each of which would have a material adverse effect on our business and operating results.

***Our common stock may be subject to the "penny stock" rules of the SEC, which makes transactions in our common stock more cumbersome and could adversely affect trading in our common stock.***

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain rules adopted by the SEC. Penny stocks generally are equity securities with a market price of less than \$5.00 per share, subject to exceptions. The rules require that a broker-dealer, before a transaction in a penny stock not otherwise exempt from the rules, deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in connection with the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, the rules generally require that before a transaction in a penny stock, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the liquidity of penny stocks. Our common stock has never traded above \$5.00 per share, and as such the holders of our common stock or other of our securities may find it more difficult to sell their securities.

***The Company has outstanding warrants having a "cashless exercise" feature.***

As part of offerings of equity and debt in 2015, 2016, and 2017, the Company issued warrants to purchase an aggregate of 5,926,627 shares of common stock. The warrants have a cashless exercise feature giving the holders the option of not paying cash to exercise the warrants but gives the holder the right to surrender a portion of the warrants to the Company as full payment of the exercise price and receive shares equal to the difference between the exercise price and the price of the shares at the time of exercise. The Company would not receive any proceeds from the exercise of warrants issued to the holder, causing dilution to existing stockholders with no corresponding influx of capital. This may affect our ability to raise additional equity capital.

***FINRA sales practice requirements may also limit a stockholder's ability to buy and sell our stock.***

In addition to the "penny stock" rules described above, the Financial Industry Regulatory Authority has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative, low-priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer's financial status, tax status, investment objectives, and other information. Under interpretations of these rules, FINRA believes that there is a high probability that speculative, low-priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy and sell our stock and have an adverse effect on the market for our shares.

***We do not expect to pay any dividends on our common stock for the foreseeable future.***

We do not anticipate that we will pay any cash dividends to holders of our common stock in the foreseeable future. Instead, we plan to retain any earnings to maintain and expand our existing operations. The declaration, payment, and amount of any future dividends, if any, will be made at the discretion of our board of directors, and will depend upon, among other things, the results of our operations, cash flows and financial condition, operating and capital requirements, and other factors that the board of directors considers relevant. We currently are subject to loan covenants that would require consent from our lenders in order to pay any dividends prior to repayment of certain outstanding loans. In addition, any future credit facilities we enter into may contain terms prohibiting or limiting the amount of dividends that may be declared or paid on our common stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our property consists of an office facility measuring approximately 6,000 square feet in Columbus, Ohio, that we lease for our headquarters and chief executive offices. The monthly rental payment is \$4,308. The lease term continues until December 31, 2021.

**ITEM 3. LEGAL PROCEEDINGS**

None.

**ITEM 4. MINE SAFETY DISCLOSURE**

Not applicable.

**Part II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

Our common stock is available for quotation on the Over-the-Counter Bulletin Board under the symbol "INLX."

The quarterly high and low closing prices of our common stock, as reported by the Over-the-Counter Bulletin Board are as follows:

Quarter Ended	Common Stock	
	High	Low
December 31, 2017	\$ 0.36	\$ 0.12
September 30, 2017	\$ 0.75	\$ 0.21
June 30, 2017	\$ 0.90	\$ 0.58
March 31, 2017	\$ 0.97	\$ 0.83
December 31, 2016	\$ 0.89	\$ 0.49
September 30, 2016	\$ 1.09	\$ 0.83
June 30, 2016	\$ 1.30	\$ 0.76
March 31, 2016	\$ 1.13	\$ 0.85

 **Holders**

As of March 27, 2018 we had 86 stockholders of record. Such number of record stockholders does not include additional stockholders or other beneficial owners whose shares are held in street or nominee name by banks, brokerage firms, and other institutions on their behalf.

 **Dividends**

No dividends on our common stock were paid in either of the two most recent fiscal years, and we do not anticipate paying dividends on our common stock in the foreseeable future.

 **Unregistered Securities Issuances in Fiscal Year 2017**

All unregistered securities issued in fiscal year 2017 have been previously reported in a Quarterly Report on Form 10-Q or in a Current Report on Form 8-K.

 **Shares Issued and Outstanding and Shares Reserved for Exercise of Warrants, Stock Options, and the 2015 Plan**

As of March 27, 2018, the Company has 17,729,421 shares of common stock issued and outstanding; and 22,963,385 shares reserved for issuance upon the exercise of outstanding warrants, convertible notes, outstanding stock options, and shares reserved for the Intellinetics, Inc. 2015 Equity Incentive Plan (the "2015 Plan").

 **Issuer Purchase of Securities**

None.

**ITEM 6. SELECTED FINANCIAL DATA**

Not applicable to smaller reporting companies.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following management's discussion and analysis of financial conditions and results of operations of the Company for the fiscal years ended December 31, 2017, and 2016 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Annual Report on Form 10-K. References in this item to the "Company," "us," "we," "our," and similar terms refer to Intellinetics, a Nevada corporation, and its sole operating subsidiary, Intellinetics Ohio, an Ohio corporation, unless we state otherwise or the context indicates otherwise.

This discussion includes forward-looking statements, as that term is defined in the federal securities laws, based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as "anticipate," "estimate," "plan," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions are used to identify forward-looking statements.

We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risk factors that are included in Part I, Item 1A of this report. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition accrued expenses, financing operations, contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carry value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the financial statements included in this report for the year ended December 31, 2017.

### Company Overview

Intellinetics is a Nevada holding company incorporated in 1997, with a single operating subsidiary, Intellinetics Ohio. Intellinetics Ohio was incorporated in 1996, and on February 10, 2012, Intellinetics Ohio became the sole operating subsidiary of Intellinetics as a result of a reverse merger and recapitalization.

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

Customers obtain use of the Company's software by either purchasing it for installation onto their equipment, referred to as a "premise" model, or by accessing the platform via the Internet, referred to as a "cloud-based" or "software as a service" ("SaaS") model. The Company anticipates that the provision of "cloud" application services, or SaaS cloud-based customer activation, will increase over time and become the priority in the market and the most significant strategic part of its revenue growth opportunity. Our revenues from cloud-based delivery of our software, including hosting services, as a percentage of total revenue for the period ended December 31, 2017 and 2016, were 24% and 20%, respectively.

### ***Revenues***

Revenues are generated from the licensing, subscription and maintenance of our enterprise software products and from professional services fees in connection with the implementation and integration of software applications. Our revenues, especially our license revenues, are impacted by the effectiveness of our sales and marketing efforts and the competitive strength of our software products, as well as general economic and industry conditions.

For our sales of software, our customer base has traditionally included customers with larger projects that can take as much as nine months to complete. For these projects, our policy is to recognize revenue on the percentage of completion basis, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract, or on a completed contract basis when dependable estimates are not available.

### ***Cost of Revenues***

We maintain a staff of software design engineers, developers, installers and customer support personnel, dedicated to the development and implementation of customer applications, customer support and maintenance of deployed software applications. While the total costs related to these personnel are relatively consistent from period to period, the cost of revenues categories to which these costs are charged may vary depending on the type of work performed by our staff.

Costs of revenues also include the costs of server hosting and SaaS applications, as well as certain third-party costs and hardware costs incurred. Third-party and hardware costs may vary widely from quarter to quarter.

### ***Sales and Marketing Expenses***

Sales expenses consist of compensation and overhead associated with the development and support of our channel sales network, as well as our direct sales efforts. Marketing expenses consist primarily of compensation and overhead associated with the development and production of product marketing materials, as well as promotion of the Company's products directly to customers and indirectly through other product resellers who target our customer base.

### ***General and Administrative Expenses***

General and administrative expenses consist of the compensation and overhead of administrative personnel and professional services firms performing administrative functions, including management, accounting, finance and legal services, plus expenses associated with infrastructure, including depreciation, information technology, telecommunications, facilities and insurance.

### ***Interest, Net***

Interest Expense, net, consists primarily of interest expense and amortization of debt issuance costs and beneficial conversion feature discounts associated with our notes payable. See Results of Operations – Interest Expense – Net, for additional information.

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

### ***Major Quantitative and Qualitative Factors we Consider in the Evaluation of our Business***

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

- Our current strategy is to focus upon cloud-based delivery of our software products through channel partners and direct sales, with a further focus on select vertical markets. Historically, our revenues have mostly resulted from premise-based software licensing revenue and professional services revenue. Our observation of industry trends leads us to anticipate that cloud-based delivery will become our principal software business and a primary source of revenues for us, and we are seeing our customers migrate to cloud-based services. Accordingly, when we evaluate our results, we assess whether our cloud-based software revenues are increasing, relative to prior periods and relative to other sources of revenue. Additionally, we assess whether our sales resulting from relationships with channel partners are increasing, relative to prior periods and relative to direct sales to customers.
- Our customer engagements often involve the development and licensing of customer-specific software solutions and related consulting and software maintenance services. When analyzing whether to undertake a particular customer engagement, we often consider all of the following factors as part of our overall strategy to grow the business: (i) the profit margins the project may yield, (ii) whether the project will allow us to enter a new geographic or vertical market, (iii) whether the project would enable us to demonstrate our capabilities to large national resellers, or (iv) whether the project would help to develop new product and service features that we could integrate into our suite of products, resulting in an overall product portfolio that better aligns with the needs of our target customers. As a result of this pipeline analysis, we may take on projects with a lower project margin if we determine that the project is valuable to our business for the other reasons discussed.

- Our sales cycle can be long, sometimes lasting 3-9 months. Even when a project begins, we often perform pre-installation assessment, project scoping, and implementation consulting. Therefore, when we plan our business and evaluate our results, we consider the revenue we expect to recognize from projects in our late-stage pipeline.
- Our research and development efforts and expenses to create new software products are critical to our success. When developing new products or product enhancements, our developers collaborate with our own employees across a wide variety of job functions. We also gather in-depth feedback from our customers and channel partners. We evaluate new products and services to determine their likelihood of market success and their potential profitability.
- We monitor our costs and capital needs to ensure efficiency as well as an adequate level of support for our business plan.

***Uncertainties, Trends, and Risks that can cause Fluctuations in our Operating Results***

Our operating results have fluctuated significantly in the past and are expected to continue to fluctuate in the future due to a variety of factors. Factors that affect our operating results include the following:

- our capital needs, and the costs at which we are able to obtain capital;
- general economic conditions that affect the amount our customers are spending on their software needs, the cost at which we can provide software products and services, and the costs at which we can obtain capital;
- the development of new products, requiring development expenses, product rollout, and market acceptance;
- the length of our sales cycle;
- the fact that many of our customers are governmental organizations, exposing us to the risk of early termination, audits, investigations, sanctions, and other penalties not typically associated with private customers;
- our relationships with our channel partners, for purposes of product delivery, introduction to new markets and customers, and for feedback on product development;
- our need to increase expenses at the beginning of a customer project, while associated revenue is recognized over the life of the project;
- the potential effect of security breaches, data center infrastructure capacity, our use of open-source software, and governmental regulation and litigation over data privacy and security;
- whether our clients renew their agreements and timely remit our accounts receivable;
- whether we can license third-party software on reasonable terms;
- our ability to protect and utilize our intellectual property; and
- the effects of litigation, warranty claims, and other claims and proceedings.

Due to all these factors and the other risks discussed in “Item 1.A Risk Factors” of this report, our results of operations should not be relied upon as an indication of our future performance. A comparison of our operating results with prior periods is not necessarily meaningful or indicative of future performance.

**Results of Operations**

***Overview - Fiscal 2017 Compared with Fiscal 2016***

We reported net losses of \$1,359,337 and \$1,576,311 for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease in net loss of \$216,974 or 14%. We reported gross profit of \$1,862,979 and \$1,891,924 for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease in gross profit of \$28,945 or 2%. We reported operating expenses of \$3,031,555 and \$3,261,903 for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease in operating expenses of \$230,348 or 7%. The decrease in operating expenses year-over-year was principally related to decreases in sales and marketing expenses, driven one time consulting and set up of IntelliCloud University in 2016.

***Revenues***

We reported total revenues of \$2,623,441 and \$2,601,733 for the twelve months ended December 31, 2017 and 2016, respectively, representing an increase of \$21,708 or 1%. The net increase in total revenues year-over-year is attributable to several factors as described below.

**Sale of Software**

Revenues from the sale of software principally consist of sales of additional or upgraded software licenses and applications to existing customers and sales of software to our resellers. These software revenues were \$452,238 and \$390,583, for the twelve months ended December 31, 2017 and 2016, respectively, representing an increase of \$61,655, or 16%. The increase year-over-year in sales was due to timing of large direct sales projects, more than offsetting a market shift toward SaaS.

#### Sale of Software as a Service

For customers who wish to avoid the upfront costs and ongoing internal maintenance of typical premises-based software installations, we provide access to our software solutions as a service, accessible through the internet. Our customers typically enter into our software as a service agreement for periods in excess of one year. Under these agreements, we generally provide access to the applicable software, data storage and related customer assistance and support. Our software as a service revenues were \$625,557 and \$525,282, for the twelve months ended December 31, 2017 and 2016, respectively, representing an increase of \$100,275 or 19%. The increase in revenue year-over-year was primarily the result of new customers choosing a cloud-based solution and expanded data storage and hosting fees.

#### Sale of Software Maintenance Services

Software maintenance services revenues consist of fees for post contract customer support services provided to license holders. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. A substantial portion of these revenues were generated from customers to whom we sold software in prior years who have continued to renew their maintenance agreements. The support and maintenance agreements typically have a term of 12 months. Our software maintenance support revenue was \$966,011 and \$988,690, for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease of \$22,679, or 2%. The decrease in revenue year-over-year was the result of attrition of existing maintenance agreement renewals exceeding new growth.

#### Sales of Professional Services

Professional services revenues consist of revenues from consulting, discovery, training, and advisory services to assist customers with document management needs. These revenues include those arrangements where we do not sell software license as an element of the overall arrangement. Professional services revenues were \$451,628 and \$502,952, for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease of \$51,324 or 10%. The decrease in revenue was primarily timing of consulting contracts for customers seeking additional customization, project management, and training.

#### Sale of Third Party Services

Third party services consist of third party vendor software, hardware and/or services purchases as requested by our customers as needed in conjunction with our core software or services. By classifying these revenues under a separate revenue category, we reduce the extent to which fluctuations in this revenue category impact the other categories of revenues. Third party services revenues were \$128,007 and \$194,226, respectively, for the twelve months ended December 31, 2017 and 2016, respectively, representing a decrease of \$66,219 or 34%.

#### ***Costs of Revenue***

The cost of revenues during the twelve months ended December 31, 2017 and 2016 were \$760,462 and \$709,809, respectively, representing an increase of \$50,653, or 7%. The increase in cost of revenue year-over-year is primarily the result of mix, where the increase in volume of clients in the software as a service category in 2016, as well as additional labor costs in completing professional services.

#### Gross Margins

Overall gross margin for the twelve months ended December 31, 2017 and 2016 were 71% and 73%, respectively, representing a decrease of 2%. The decrease in gross margin year-over-year is primarily as result of the revenue mix shift, as well as the increase of costs associated with professional services, relative to the revenues, as discussed in Costs of Revenue above.

#### Cost of Software Revenues

Cost of software revenues consists primarily of third-party software licenses that are sold in connection with our core software applications and labor costs of our software engineers and implementation consultants. Cost of software revenues was \$97,899 and \$73,566 for the twelve months ended December 31, 2017 and 2016, respectively, representing an increase of \$24,333 or 33%.



Gross margin for this product category decreased to 78% for the twelve months ended December 31, 2017 from 81% for the twelve months ended December 31, 2016. The decrease is a function of the level of customization in the contracts, with slightly more customization in 2017.

#### Cost of Software as a Service

Cost of software as a service consists primarily of technical support personnel, hosting services, and related costs. Cost of software as a service was \$304,512 for the twelve months ended December 31, 2017, as compared with \$247,928 for the twelve months ended December 31, 2016, representing an increase of \$56,584, or 23%. The increase was primarily from the increased volume, including an increase in allocation of technical support personnel costs.

Gross margins for this product category were 51% and 53% for the twelve months ended December 31, 2017, and 2016, respectively.

#### Cost of Software Maintenance Services

Cost of software maintenance services consists primarily of technical support personnel and related costs. Cost of software maintenance services for the twelve months ended December 31, 2017 was \$120,422 compared with \$127,805 for the twelve months ended December 31, 2016, representing a decrease of \$7,383, or 6%.

Gross margins in this product category were 88% and 87% for the twelve months ended December 31, 2017, and 2016, respectively.

#### Cost of Professional Services

Cost of professional services consists primarily of the compensation of our software engineers and implementation consultants and related third-party costs. Cost of consulting services was \$198,133 for the twelve months ended December 31, 2017, as compared with \$135,486 for the twelve months ended December 31, 2016, representing an increase of \$62,647 or 46%. The increase year-over-year resulted from increased professional services labor costs to complete custom projects.

Gross margins in this product category were 56% and 73% for the twelve months ended December 31, 2017, and 2016, respectively. Gross margins related to consulting services may vary widely, depending upon the nature of the consulting project and the amount of labor it takes to complete a project.

#### Cost of Third Party Services

Cost of third party services consists primarily of third-party software licenses that are sold in connection with our core software applications, and related third-party costs. Cost of third party services was \$39,496 for the twelve months ended December 31, 2017, as compared with \$125,024 for the twelve months ended December 31, 2016, representing a decrease of \$85,528 or 68%. The decrease year-over-year resulted from timing of different types of third party products and services provided, bearing different margins.

Gross margins in this product category were 69% and 36% for the twelve months ended December 31, 2017, and 2016, respectively. Gross margins related to third party services may vary widely, depending upon the type of the third party services and the timing of the related projects.

### ***Operating Expenses***

#### General and Administrative Expenses

General and administrative expenses were \$2,199,904 during the twelve months ended December 31, 2017 as compared with \$2,118,924 during the twelve months ended December 31, 2016, representing an increase of \$80,980 or 4%. The increase in operating expenses year-over-year was principally related to a \$65,000 training credit in 2016, as well as a payroll increase, driven by increased customer support personnel and increased research and development costs.

#### Sales and Marketing Expenses

Sales and marketing expenses decreased to \$819,820 during the twelve months ended December 31, 2017 as compared with \$1,132,292 during the twelve months ended December 31, 2016, representing a decrease of \$312,472 or 28%. The decrease year-over-year was primarily related to 2016 support of and efforts to grow our network of channel partners, including one-time consulting and the launch of IntelliCloud University, our on-line training and on-boarding tool.

#### Depreciation

Depreciation was \$11,831 for the twelve months ended December 31, 2017, as compared with \$10,687 for the twelve months ended December 31, 2016, representing an increase of \$1,144 or approximately 11%. The increase year-over-year reflects the impact of new assets depreciating.

#### Interest Expense, Net

Interest expense, net, was \$609,851 during the twelve months ended December 31, 2017 as compared with \$206,332 during the twelve months ended December 31, 2016, representing an increase of \$403,519 or 196%. The increase year-over-year resulted primarily from interest expense and amortization of debt issuance costs and beneficial conversion feature discounts associated with our notes payable issued in December 2016, January 2017, and November 2017.

### **Liquidity and Capital Resources**

We have financed our operations primarily through a combination of cash on hand, cash generated from operations, borrowings from third parties and related parties, and proceeds from private sales of equity. As of December 31, 2017, our major liquidity indicators are:

- Cash \$1,125,921 and
- Working Capital Deficiency \$(1,096,120).

From our inception, we have generated revenues from the sales and implementation of our internally generated software applications. Our plan is to increase our sales and market share by developing a targeted marketing approach to select vertical markets and an expanded network of resellers through which we expect to sell our expanded software product portfolio, as well as continue to enhance our direct selling results. We expect that this marketing initiative will require us to continue our efforts towards direct marketing campaigns and leads management, reseller training and on-boarding, and to develop additional software integration and customization capabilities, all of which will require additional capital. Although management believes that we may have access to additional capital resources, there are currently no commitments in place for new financing, and there is no assurance that we will be able to obtain funds on commercially acceptable terms, if at all.

On January 5 and January 30, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for gross proceeds of \$560,000, which was part of a private placement in December 2016. The offering raised a total of \$1,250,000 in the sale of these unregistered securities. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction.

On September 21, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for net proceeds of \$150,000. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction.

On November 17 and November 30, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for net proceeds of \$2,000,000. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction.

The Company expects that through the next 12 months the capital requirements to fund the Company's growth and to cover the operating costs as a public company will consume substantially all the cash flows that it intends to generate from its operations, in addition to the proceeds from the issuances of debt and equity securities. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations may not generate sufficient funds to cover these anticipated operating costs. Our cash flows to meet our cash requirements are insufficient by approximately \$107,000 per month. Assuming over the next 12 months, we do not increase our cash flow generated from operations or obtain additional capital or debt financing, we will not have sufficient funds for planned operations and service for existing current debt obligations.

There is no assurance that the Company's plans as discussed above will materialize and/or that the Company will have sufficient funds to fund the Company's operations. Given these conditions, the Company ability to continue as a going concern is contingent upon successfully managing its cash requirements.

Assuming that we are successful in our growth plans and development efforts, we believe that we will be able to raise additional funds through sales of our common stock, issuance of debt or some other financing source. There is no guarantee that we will be able to raise these additional funds or do so on acceptable terms.

Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

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

##### **Shares Issued and Outstanding and Shares Reserved for Exercise of Warrants, Stock Options, and the 2015 Plan**

As of March 27, 2018, the Company has 17,729,421 shares of common stock issued and outstanding; and 22,963,385 shares reserved for issuance upon the exercise of outstanding warrants, convertible notes, outstanding stock options, and shares reserved for the 2015 Plan.

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

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

### Promissory Note

On December 31, 2014, the Company and Ramon M. Shealy converted their previous promissory notes, whose total principal balance and unpaid interest was \$193,453 to a new single promissory note, with a maturity date of January 1, 2020. For more information, please see Note 7 to the Consolidated Financial Statements, titled Notes Payable.

### Issuance of Convertible Notes.

Between December 30, 2016, and January 31, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for gross proceeds of \$1,250,000. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction. As part of this offering, \$690,000 of convertible notes were issued in 2016, with the remaining notes issued in 2017.

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

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

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

### **Summary of Outstanding Indebtedness at December 31, 2017**

The Company's outstanding indebtedness at December 31, 2017 is as follows:

- Promissory note held by Ramon Shealy, dated December 31, 2014, with a principal balance of \$193,453, current principal balance of \$92,439, and accrued interest of \$770.
- Convertible notes held by accredited investors, dated December 30, 2016 and January 5 and January 30, 2017, with an aggregate original principal balance of \$1,250,000, current principal balance of \$1,250,000, and accrued interest of \$81,358.
- Convertible notes held by accredited investors, dated November 17 and November 30, 2017, with an aggregate original principal balance of \$2,150,000, current principal balance of \$2,150,000, and accrued interest of \$17,283.

### ***Capital Expenditures***

There were no material commitments for capital expenditures at December 31, 2017.

### ***Cash Flows***

#### **Operating Activities**

Net cash used in operating activities for the twelve months ended December 31, 2017, and 2016 was \$1,122,444 and \$1,260,681, respectively. During the twelve months ended December 31, 2017, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$258,693, an increase in operating assets of \$52,368 and an increase in operating liabilities of \$30,568. During the twelve months ended December 31, 2016, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$472,546, an increase in operating assets of \$169,812 and an increase in operating liabilities of \$12,896.

#### **Investing Activities**

Net cash used in investing activities for the twelve months ended December 31, 2017, and 2016 amounted to \$12,624 and \$6,867, respectively, and was related to the purchase of property and equipment.

#### **Financing Activities**

Net cash provided by financing activities for the twelve months ended December 31, 2017 amounted to \$1,571,043. New borrowings of \$2,710,000 were partially offset by \$821,430 of notes payable repayments, of which \$34,969 was repaid to related parties.

Net cash provided by financing activities for the twelve months ended December 31, 2016 amounted to \$840,376. New borrowings of \$690,000 were partially offset by \$359,379 of notes payable repayments, of which \$92,806 was repaid to related parties. The sale of common stock resulted in \$559,285 in net cash during 2016.

## Critical Accounting Policies and Estimates

### *Liquidity, Going Concern and Management's Plans*

We have incurred substantial recurring losses since our inception. The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. During the years 2012 through 2017 we raised a total of \$11,383,494 through issuance of debt and equity securities. We are also in the process of exploring strategies to increase our existing revenues. We believe we will be successful in these efforts; however, there can be no assurance we will be successful in raising additional debt or equity financing or finding any other financing source to fund our operations on terms agreeable to us.

### *Use of Estimates*

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and other financial information.

On an ongoing basis, we evaluate our estimates and judgments. Areas in which we exercise significant judgment include, but are not necessarily limited to, our valuation of accounts receivable, and income taxes, along with the estimated useful lives of depreciable property and equipment.

We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry, current and expected economic conditions, and the attributes of our products and services. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

A description of significant accounting policies that require us to make estimates and assumptions in the preparation of our consolidated financial statements is as follows:

### *Revenue Recognition*

We generate revenues from the sale of software licenses, both with and without professional services, from consulting services without an associated software sale, from maintenance services performed under periodic contracts, and agreements that provide customers the use of our software applications as a service.

We recognize revenues in accordance with Accounting Standards Codification ("ASC") topic 985-605 "Software Revenue Recognition." We record revenues from the sale of software licenses when persuasive evidence of an arrangement exists, the software product has been installed, there are no significant uncertainties surrounding customer acceptance, the fees are fixed and determinable, and collection is considered probable.

If an undelivered element for the arrangement exists under the license arrangement, revenues related to the undelivered element are deferred based on vendor specific objective evidence ("VSOE") of the fair value of the undelivered element. Often, multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. We have established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and our PCS renewal experience from our existing customer base.

In connection with the sale of software with professional services, we provide the customer with a solution that is customized or configured to fit the customer's particular needs and/or our professional services are essential to the functionality of the software. In these arrangements, the software license and professional services do not qualify for separate accounting. Accordingly, we record the revenues for these sales as prescribed by ASC 985-605, in accordance with the contract accounting guidelines in ASC topic 605-35 "Revenue Recognition: Construction-Type and Production-Type Contracts" ("ASC 605-35"), after evaluating for separation of any non-ASC 605-35 elements in accordance with the provisions of ASC 605-25, "Revenue Recognition: Multiple-Element Arrangements," as updated. We account for these contracts on a percentage of completion basis, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract, or on a completed contract basis when dependable estimates are not available.

Revenues generated under software as a service and maintenance contracts are recognized ratably over the term of the contract. Software as a service revenues are typically billed on a monthly or annual basis.

We assess whether payment terms are customary or extended in accordance with normal practice relative to the market in which the sale is occurring. Our sales arrangements generally include standard payment terms; however, payment terms may be extended to accommodate the conditions of certain customers. These terms effectively relate to all customers, products and arrangements regardless of customer type, product mix or arrangement size.

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

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

#### ***Deferred Revenues***

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

#### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Not applicable to smaller reporting companies.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

(1) Financial Statements.

	<u>Page</u>
<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-1
<a href="#">Balance Sheets at December 31, 2017 and 2016</a>	F-2
<a href="#">Statements of Operations For the Years Ended December 31, 2017 and 2016</a>	F-3
<a href="#">Statements of Stockholders' Equity For the Years Ended December 31, 2017 and 2016</a>	F-4
<a href="#">Statements of Cash Flows For the Years Ended December 31, 2017 and 2016</a>	F-5
<a href="#">Notes to Financial Statements</a>	F-6

(2) Financial Statement Schedules.

Financial Statement Schedules have been omitted because they are either not required or not applicable, or because the information required to be presented is included in the financial statements or the notes thereto included in this report.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Intellinetics, Inc. and Subsidiary

### Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Intellinetics, Inc. and Subsidiary (the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations, stockholders' deficit, and cash flows for each of the years then ended, and related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Uncertainty About the Company's Ability to Continue as a Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the consolidated financial statements, the Company has recurring losses and negative cash flows from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*/s/ GBQ Partners LLC*

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We have served as the Company's auditor since 2012  
Columbus, Ohio  
April 2, 2018



**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Balance Sheets**

<b>ASSETS</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
<b>Current assets:</b>		
Cash	\$ 1,125,921	\$ 689,946
Accounts receivable, net	295,815	259,497
Prepaid expenses and other current assets	162,450	150,620
<b>Total current assets</b>	<b>1,584,186</b>	<b>1,100,063</b>
Property and equipment, net	14,760	18,783
Other assets	10,284	10,285
<b>Total assets</b>	<b>\$ 1,609,230</b>	<b>\$ 1,129,131</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 471,200	\$ 767,197
Deferred revenues	703,971	665,460
Deferred compensation	213,166	215,012
Notes payable - current	875,000	360,496
Notes payable - related party - current	416,969	38,307
<b>Total current liabilities</b>	<b>2,680,306</b>	<b>2,046,472</b>
<b>Long-term liabilities:</b>		
Notes payable - net of current portion	1,221,384	585,782
Notes payable - related party - net of current portion	312,680	299,447
Deferred interest expense	-	158,062
Other long-term liabilities - related parties	29,997	1,125
<b>Total long-term liabilities</b>	<b>1,564,061</b>	<b>1,044,416</b>
<b>Total liabilities</b>	<b>4,244,367</b>	<b>3,090,888</b>
<b>Stockholders' deficit:</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized; 17,426,729 and 16,815,850 shares issued and outstanding at December 31, 2017 and 2016, respectively	30,431	26,816
Additional paid-in capital	13,648,519	12,966,177
Accumulated deficit	(16,314,087)	(14,954,750)
<b>Total stockholders' deficit</b>	<b>(2,635,137)</b>	<b>(1,961,757)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 1,609,230</b>	<b>\$ 1,129,131</b>

See Notes to these consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Statements of Operations**

	<b>For the Year Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Sale of software	\$ 452,238	\$ 390,583
Software as a service	625,557	525,282
Software maintenance services	966,011	988,690
Professional services	451,628	502,952
Third Party services	128,007	194,226
<b>Total revenues</b>	<b>2,623,441</b>	<b>2,601,733</b>
<b>Cost of revenues:</b>		
Sale of software	97,899	73,566
Software as a service	304,512	247,928
Software maintenance services	120,422	127,805
Professional services	198,133	135,486
Third Party services	39,496	125,024
<b>Total cost of revenues</b>	<b>760,462</b>	<b>709,809</b>
<b>Gross profit</b>	<b>1,862,979</b>	<b>1,891,924</b>
<b>Operating expenses:</b>		
General and administrative	2,199,904	2,118,924
Sales and marketing	819,820	1,132,292
Depreciation	11,831	10,687
<b>Total operating expenses</b>	<b>3,031,555</b>	<b>3,261,903</b>
<b>Loss from operations</b>	<b>(1,168,576)</b>	<b>(1,369,979)</b>
<b>Other income (expense)</b>		
Gain on retirement of debt	419,090	-
Interest expense, net	(609,851)	(206,332)
<b>Total other income (expense)</b>	<b>(190,761)</b>	<b>(206,332)</b>
<b>Net loss</b>	<b>\$ (1,359,337)</b>	<b>\$ (1,576,311)</b>
<b>Basic and diluted net loss per share:</b>	<b>\$ (0.08)</b>	<b>\$ (0.09)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<b>17,372,595</b>	<b>16,650,085</b>

See Notes to these consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Twelve Months Ended December 31, 2017**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2015	14,908,439	\$ 21,909	\$ 11,537,093	\$ (13,378,439)	\$ (1,819,437)
Sales of Stock	1,013,198	1,013	558,272		559,285
Stock Issued to Directors	69,443	69	62,431	-	62,500
Stock Option Compensation	-	-	137,878	-	137,878
Exercise of Stock Warrants	520,858	3,521	(22)	-	3,499
Note Conversion Warrant Expense	-	-	137,970	-	137,970
Note Offer Warrant Expense	-	-	97,435	-	97,435
Convertible Securities Exercised	303,912	304	169,735	-	170,039
Beneficial Conversion of Convertible Notes	-	-	265,385	-	265,385
Net Loss	-	-	-	(1,576,311)	(1,576,311)
Balance, December 31, 2016	16,815,850	\$ 26,816	\$ 12,966,177	\$ (14,954,750)	\$ (1,961,757)
Stock Issued to Directors	114,831	115	65,510	-	65,625
Stock Option Compensation	-	-	153,420	-	153,420
Exercise of Stock Warrants	496,111	3,500	(3,500)	-	0
Note Offer Warrant	-	-	218,389	-	218,389
Beneficial Conversion of Convertible Notes	-	-	248,523	-	248,523
Net Loss	-	-	-	(1,359,337)	(1,359,337)
Balance, December 31, 2017	17,426,792	\$ 30,431	\$ 13,648,519	\$ (16,314,087)	\$ (2,635,137)

See Notes to these consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Statements of Cash Flows**

	<b>For the Twelve Months Ended December 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,359,337)	\$ (1,576,311)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	11,831	10,687
Bad debt expense	4,221	23,244
Loss on disposal of fixed assets	4,816	-
Amortization of deferred financing costs	132,296	2,832
Amortization of beneficial conversion option	252,623	-
Stock issued for services	65,625	62,500
Stock options compensation	153,420	137,878
Note conversion warrant expense	-	137,970
Note offer warrant expense	52,951	97,435
Gain on retirement of debt	(419,090)	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(40,539)	(65,713)
Prepaid expenses and other current assets	(11,829)	(104,099)
Accounts payable and accrued expenses	(31,427)	(24,628)
Deferred compensation	(1,846)	-
Other long-term liabilities - related parties	28,872	(11,727)
Deferred interest expense	(3,542)	21,984
Deferred revenues	38,511	27,267
Total adjustments	236,893	315,630
Net cash used in operating activities	<u>(1,122,444)</u>	<u>(1,260,681)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(12,624)	(6,867)
Net cash used in investing activities	<u>(12,624)</u>	<u>(6,867)</u>
<b>Cash flows from financing activities:</b>		
Sale of Common Stock	-	559,285
Exercise of stock options	-	3,499
Payment of deferred financing costs	(317,527)	(53,029)
Proceeds from notes payable	2,320,000	315,000
Proceeds from notes payable - related parties	390,000	375,000
Repayment of notes payable	(786,461)	(266,573)
Repayment of notes payable - related parties	(34,969)	(92,806)
Net cash provided by financing activities	<u>1,571,043</u>	<u>840,376</u>
Net increase (decrease) in cash	435,975	(427,172)
Cash - beginning of period	689,946	1,117,118
Cash - end of period	<u>\$ 1,125,921</u>	<u>\$ 689,946</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest and taxes	<u>\$ 170,889</u>	<u>\$ 56,702</u>
<b>Supplemental disclosure of non-cash financing activities:</b>		
Accrued interest notes payable converted to equity	\$ -	\$ 35,039
Discount on notes payable for beneficial conversion feature	248,523	121,154
Discount on notes payable - related parties for beneficial conversion feature	-	144,231
Discount on notes payable for warrants	103,637	-
Discount on notes payable - related parties for warrants	61,801	-
Notes payable conversion warrant expense	-	113,762
Notes payable conversion underwriting warrant expense	-	24,207
Notes payable converted to equity	-	135,000

See Notes to these consolidated financial statements

**INTELLINETICS, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

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

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

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

**2. Basis of Presentation**

The accompanying audited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”). The Company has evaluated subsequent events through the issuance of this Form 10-K.

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

Through December 31, 2017, the Company had incurred an accumulated deficit since its inception of \$16,314,087. At December 31, 2017, the Company had a cash balance of \$1,125,921.

From the Company’s inception, it has generated revenues from the sales and implementation of its internally generated software applications.

The Company’s business plan is to increase our sales and market share by developing a targeted marketing approach to select vertical markets and an expanded network of resellers through which we expect to sell our expanded software product portfolio, as well as continue to enhance our direct selling results. We expect that this marketing initiative will require us to continue our efforts towards direct marketing campaigns and leads management, reseller training and on-boarding, and to develop additional software integration and customization capabilities, all of which will require additional capital.

The Company expects that through the next 12 months, the capital requirements to fund the Company’s growth, service existing debt obligations, and to cover the operating costs as a public company will consume substantially all of the cash flows that it intends to generate from its operations. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations will not generate sufficient funds to cover these anticipated operating costs. Our cash requirements are insufficient by approximately \$107,000 per month. During 2017 and 2016, the Company has used the proceeds from the convertible note issuances and the sale of equity securities to sustain operations and to follow through on the execution of its business plan. There is no assurance that the Company has or will be able to obtain sufficient funds to fund the Company’s operations. Given these conditions, the Company’s ability to continue as a going concern is contingent upon increasing its revenues and successfully managing its cash requirements. In addition, the Company’s ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrants into established markets, the competitive environment in which the Company operates and its cash requirements. These factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern.

Since inception, the Company’s operations have primarily been funded through a combination of gross margins, state business development loans, bank loans, convertible loans and loans from friends and family, and the sale of securities. Although management believes that the Company may have access to additional capital resources, there are currently no commitments or arrangements in effect that would provide for new financing and there is no assurance that the Company will be able to obtain additional funds on commercially acceptable terms, if at all.

During the twelve months ended December 31, 2017, the Company raised \$2,392,473, net of financing costs of \$317,527, through the issuance of convertible notes and warrants. The proceeds from the issuance and the sale were used to fund the Company's working capital needs and debt repayment obligations.

The current level of cash and operating margins may not be enough to cover the existing fixed and variable obligations of the Company, so increased revenue performance and the addition of capital are critical to the Company's success.

The Company's financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should it be unable to continue as a going concern.

#### **4. Corporate Actions**

On February 10, 2012, Intellinetics Ohio was acquired by Intellinetics, when it was known as GlobalWise Investments, Inc., pursuant to a reverse merger, with Intellinetics Ohio surviving as a wholly owned subsidiary of Intellinetics.

On September 1, 2014, the Company changed its name from GlobalWise Investments, Inc., to Intellinetics, Inc. and effected a one-for-seven (1-for-7) reverse stock split of the Company's common stock. All share and per share amounts herein have been adjusted to reflect the reverse stock split.

#### **5. Summary of Significant Accounting Policies**

##### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from estimated amounts.

Significant estimates and assumptions include valuation allowances related to receivables, the recoverability of long-term assets, depreciable lives of property and equipment, deferred taxes and related valuation allowances. The Company's management monitors these risks and assesses its business and financial risks on a quarterly basis.

##### *Concentrations of Credit Risk*

The Company maintains its cash with high credit quality financial institutions. At times, the Company's cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

The number of customers that comprise the Company's customer base, along with the different industries, governmental entities and geographic regions, in which the Company's customers operate, limits concentrations of credit risk with respect to accounts receivable. The Company does not generally require collateral or other security to support customer receivables; however, the Company may require its customers to provide retainers, up-front deposits or irrevocable letters-of-credit when considered necessary to mitigate credit risks. The Company has established an allowance for doubtful accounts based upon facts surrounding the credit risk of specific customers and past collections history. Credit losses have been within management's expectations. At December 31, 2017 and 2016, the Company's allowance for doubtful accounts was \$16,443 and \$19,034, respectively.

### ***Property and Equipment***

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed over the estimated useful lives of the related assets on a straight-line basis. Furniture and fixtures, computer hardware and purchased software are depreciated over three to seven years. Leasehold improvements are amortized over the life of the lease or the asset, whichever is shorter, generally seven to ten years. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation and amortization of these assets are removed from the accounts and the resulting gains and losses are reflected in the results of operations.

### ***Impairment of Long-Lived Assets***

The Company accounts for the impairment and disposition of long-lived assets in accordance with Accounting Standards Codification (“ASC”) Topic 360, “Property, Plant, and Equipment.” The Company tests long-lived assets or asset groups, such as property and equipment, for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable.

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

Recoverability is assessed based on comparing the carrying amount of the asset to the aggregate pre-tax undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. Impairment is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. The impairment loss, if any, is measured as the amount by which the carrying amount exceeds fair value, which for this purpose is based upon the discounted projected future cash flows of the asset or asset group.

### ***Share-Based Compensation***

The Company accounts for stock-based payments to employees in accordance with ASC 718, “Stock Compensation.” Stock-based payments to employees include grants of stock that are recognized in the consolidated statement of operations based on their fair values at the date of grant.

The Company accounts for stock-based payments to non-employees in accordance with ASC 718 and ASC 505-50, “Equity-Based Payments to Non-Employees,” which requires that such equity instruments are recorded at their fair value on the measurement date, with the measurement of such compensation being subject to periodic adjustment as the underlying equity instruments vest.

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

On January 3 and March 17, 2017, the Company issued 61,110 and 2,941 new Shares, respectively, of restricted common stock to directors of the Company in accordance with the 2015 Intellinetics Equity Incentive Plan (the “2015 Plan”). Stock compensation of \$57,500 was recorded on the issuance of the Shares. On December 19, 2017, the Company issued 50,780 new Shares, respectively, of restricted common stock to directors of the Company in accordance with the 2015 Plan. Stock compensation of \$8,125 was recorded on the issuance of the Shares.

On March 15, 2017, the Company granted an employee stock options to purchase 100,000 Shares at an exercise price of \$0.85 per Share, in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$70,872 for these stock options would have been recognized by the Company over the applicable vesting period. These options were forfeited upon the termination of the employee and expiry of the exercise period. The total stock option compensation for the twelve months ended December 31, 2017 was \$19,563.

On September 25, 2017, the Company granted an employee stock options to purchase 750,000 Shares at an exercise price of \$0.30 per Share and 500,000 Shares at an exercise price of \$0.38 per Share, in accordance with the 2015 Plan, with vesting continuing until 2019. The options exercisable at \$0.38 per Share were also granted with contingencies regarding the Shares becoming available under the 2015 Plan. The total fair value of \$321,011 for these stock options will be recognized by the Company over the applicable vesting period. The total stock option compensation for the twelve months ended December 31, 2017 was \$42,772.

For the twelve months ended December 31, 2017, the Company recorded Share-based compensation to employees of \$153,420, and to non-employees of \$65,625. For the twelve months ended December 31, 2016, the Company recorded Share-based compensation to employees of \$137,878, and to non-employees of \$55,000.

#### ***Software Development Costs***

Software development costs for software to be sold or otherwise marketed incurred prior to the establishment of technological feasibility are expensed as incurred. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the product are capitalized, if material. To date, all software development costs for software to be sold or otherwise marketed have been expensed as incurred. In accordance with ASC 350-40, "Internal-Use Software," the Company capitalizes purchase and implementation costs of internal use software. No such costs were capitalized during the periods presented.

#### ***Research and Development***

We design, develop, test, market, license, and support new software products and enhancements of current products. We continuously monitor our software products and enhancements to remain compatible with standard platforms and file formats. We expense our software development costs as incurred. For the twelve months ending December 31, 2017 and 2016, our research and development costs were \$412,405 and \$386,285, respectively.

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

##### *Stock Compensation*

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of 2017. The Company adopted this guidance on January 1, 2017 without a material impact to the financial statements and will continue with their election to recognize forfeitures as incurred.

##### *Leases*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of 2019, and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2016-02 on its consolidated financial statements, which will require right of use assets and lease liabilities to be recorded in the consolidated balance sheet for operating leases with a lease term of more than twelve months.



## *Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, ASU 2014-09 requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”); and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers (“ASU 2016-20”). The Company must adopt ASU 2016-08, ASU 2016-10, ASU 2016-12 and ASU 2016-20 with ASU 2014-09 (collectively, the “new revenue standards”). In July 2015, the FASB deferred the effective date of the new revenue standards for one year beyond the originally specified effective date. The update is now effective for public entities for annual periods beginning after December 15, 2017, including interim periods therein. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach.

As required, the Company will adopt the new standard on January 1, 2018, and currently anticipates adopting the standard using the full retrospective method to restate each prior reporting period presented. The Company’s ability to adopt this standard using the full retrospective method is dependent upon system readiness for both revenue and commissions and the completion of the analysis of information necessary to restate prior period financial statements. As the Company continues to assess the new standard along with industry trends and additional interpretive guidance, the Company may adjust its implementation plan accordingly.

The Company believes that there will be no significant changes required to our processes and systems to adopt the new standard. We are also identifying and designing additional controls and updating our accounting policies to support our implementation and ongoing compliance with the new standard. The Company expects revenue recognition for its sale of software, maintenance, professional and third party services offerings to remain largely unchanged. However, the new standard is expected to change the timing of revenue recognition in certain areas, including software licenses with professional services and software as a service with professional services. These impacts are not expected to be material. We expect adoption of the standard will result in the recognition of less revenue of \$11,336 in 2017. The Company is also evaluating the impact of the guidance in Accounting Standards Codification (ASC) 340-40, Other Assets and Deferred Costs; Contracts with Customers, under ASU 2014-09. Under ASC 340-40, the Company would be required to capitalize and amortize incremental costs of obtaining a contract. Since the company currently expenses sales commissions as incurred, the requirement in the new standard to capitalize certain in-scope sales commissions will result in an accounting change for the company. However, the impact to the consolidated financial statements is not expected to be material. We expect adoption of the new standard for accounting for costs to obtain a contract will result in an increase of sales and marketing expense of \$4,260 in 2017, primarily due to the next impact of capitalization of commissions earned in 2017 and the amortization expense from commissions capitalized prior to 2017.

The Company does not expect the adoption of ASU 2014-09 to have any impact to cash provided by or used in operating, financing, or investing activities on our consolidated cash flows statements. Additionally, the Company does not expect the adoption of ASU 2014-09 to have a material impact on taxes, as our deferred taxes are subject to a full valuation allowance. The Company continues to assess all potential impacts of the guidance and given normal ongoing business dynamics, preliminary conclusions are subject to change. In future periods, the new standard will require us to disclose additional information in the notes to our consolidated financial statements, including disaggregation of our revenue, remaining performance obligations, and other quantitative and qualitative information about our contracts with customers.

## *Revenue Recognition*

### *a) Sale of Software*

The Company recognizes revenues in accordance with ASC Topic 985-605, “Software Revenue Recognition.”

The Company records revenues from the sale of software licenses when persuasive evidence of an arrangement exists, the software product has been installed, there are no significant uncertainties surrounding product acceptance by the customer, the fees are fixed and determinable, and collection is considered probable. Revenues included in this classification typically include sales of additional software licenses to existing customers and sales of software to the Company's Resellers (See section h) - Reseller Agreements, below.

The Company assesses whether payment terms are customary or extended in accordance with normal practice relative to the market in which the sale is occurring. The Company's sales arrangements generally include standard payment terms. These terms effectively relate to all customers, products, and arrangements regardless of customer type, product mix or arrangement size.

If an undelivered element for the arrangement exists under the license arrangement, revenues related to the undelivered element are deferred based on Vendor Specific Objective Evidence ("VSOE") of the fair value of the undelivered element. Often, multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and the Company's significant PCS renewal experience, from the Company's existing customer base.

The Company records the revenues for the sales of software with professional services as prescribed by ASC 985-605, in accordance with the contract accounting guidelines in ASC 605-35, "Revenue Recognition: Construction-Type and Production-Type Contracts" ("ASC 605-35"), after evaluating for separation of any non-ASC 605-35 elements in accordance with the provisions of ASC 605-25, "Revenue Recognition: Multiple-Element Arrangements," as updated. The Company accounts for these contracts on a percentage of completion basis, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract, or on a completed contract basis when dependable estimates are not available.

The fair value of any undelivered elements in multiple-element arrangements in connection with the sales of software licenses with professional services are deferred based upon VSOE.

***b) Sale of Software as a Service***

Sale of software as a service ("SaaS") consists of revenues from arrangements that provide customers the use of the Company's software applications, as a service, typically billed on a monthly or annual basis. Advance billings of these services are not recorded to the extent that the term of the arrangement has not commenced and payment has not been received. Revenue on these services is recognized ratably over the term of the underlying arrangement.

***c) Sale of Software Maintenance Services***

Software maintenance services revenues consist of revenues derived from arrangements that provide PCS to the Company's software license holders. These revenues are recognized ratably over the term of the contract. Advance billings of PCS are not recorded to the extent that the term of the PCS has not commenced and payment has not been received.

***d) Sale of Professional Services***

Professional services consist principally of revenues from consulting, advisory services, training and customer assistance with management and uploading of data into the Company's applications. When these services are provided on a time and material basis, the Company records the revenue as the services are rendered, since the revenues from services rendered through any point in time during the performance period are not contingent upon the completion of any further services. Where the services are provided under a fixed priced arrangement, the Company records the revenue on a proportional performance method, since the revenues from services rendered through any point in time during the performance period are not contingent upon the completion of any further services.

***e) Sale of Third Party Services***

Sale of third party services consist principally of third party software and/or equipment as a pass through of software and equipment purchased from third parties at the request of customers.

***f) Deferred revenues***

The Company records deferred revenue primarily related to software maintenance support agreements, when the customer pays for the contract prior to the time the services are performed. Substantially all maintenance agreements have a one-year term that commences immediately following the delivery of the maintained products or on the date of the applicable renewal period.

***g) Rights of return and other incentives***

The Company does not generally offer rights of return or any other incentives such as concessions, product rotation, or price protection and, therefore, does not provide for or make estimates of rights of return and similar incentives. The Company, from time to time, may discount bundled software sales with PCS services. Such discounts are recorded as a component of the software sale and any revenue related to PCS is deferred over the PCS period based upon appropriate VSOE of fair value.

#### *h) Reseller agreements*

The Company executes certain sales contracts through resellers and distributors (collectively, "Resellers"). The Company recognizes revenues relating to sales through Resellers on the sell-through method (when reseller executes sale to end customer) when all the recognition criteria have been met—in other words, persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, and collectability is probable. In addition, the Company assesses the credit-worthiness of each Reseller, and if the Reseller is undercapitalized or in financial difficulty, any revenues expected to emanate from such Resellers are deferred and recognized only when cash is received and all other revenue recognition criteria are met.

#### *Advertising*

The Company expenses the cost of advertising as incurred. Advertising expense for the twelve months ended December 31, 2017 and 2016 amounted to approximately \$23,675 and \$1,727, respectively.

#### *Earnings (Loss) Per Share*

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. The Company has outstanding stock options, which have not been included in the calculation of diluted net loss per share because to do so would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for each period are the same.

#### *Income Taxes*

The Company and its subsidiary file a consolidated federal income tax return. The provision for income taxes is computed by applying statutory rates to income before taxes.

Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the financial reporting and tax bases of assets and liabilities as of each period-end based on enacted tax laws and statutory rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. A 100% valuation allowance has been established on deferred tax assets at December 31, 2017 and 2016, due to the uncertainty of our ability to realize future taxable income.

The Company accounts for uncertainty in income taxes in its financial statements as required under ASC 740, *Accounting for Uncertainty in Income Taxes*. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. Management determined there were no material uncertain positions taken by the Company in its tax returns.

The Tax Cuts and Jobs Act (The Act) was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. There are other provisions of the Act that will affect the determination of income tax for the Company in future years. At December 31, 2017, the Company had not completed their accounting for the tax effects of enactment of the Act; however, as described below, a reasonable estimate of the effects on our existing deferred tax balances and the one-time transition tax has been made.

The Company has remeasured certain deferred tax assets and liabilities as of the enactment date of the Act based on the rates at which they are expected to reverse in the future, which is generally 21%. However, management is still analyzing certain aspects of the Act and refining its calculations, which may affect the measurement of these balances or potentially give rise to new deferred tax amounts. The provisional amount recorded related to the remeasurement of our deferred tax balance was approximately \$1,840,000, which was offset by a reduction in the valuation allowance.

#### *Statement of Cash Flows*

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

#### **6. Property and Equipment**

Property and equipment are comprised of the following:

	December 31, 2017	December 31, 2016
Computer hardware and purchased software	\$ 252,275	\$ 309,667
Leasehold improvements	221,666	221,666
Furniture and fixtures	82,722	88,322
	556,663	619,655
Less: accumulated depreciation and amortization	(541,903)	(600,872)
Property and equipment, net	\$ 14,760	\$ 18,783

Total depreciation expense on the Company's property and equipment for the twelve months ended December 31, 2017 and 2016 amounted to \$11,831 and \$10,687, respectively.

## 7. Notes Payable

On July 17, 2009, Intellinetics Ohio, now the sole operating subsidiary of the Company, issued a note payable to the Ohio State Development Authority in the amount of \$1,012,500, bearing interest at a rate of 6.00% per annum ("Authority Loan No. 1"). Pursuant to the terms of the Authority Loan No. 1, Intellinetics Ohio was required to pay only interest through September 30, 2010 and thereafter monthly principal and interest payments of \$23,779 each through September 1, 2015. The Authority Loan No. 1 was secured by a senior secured interest on all business assets financed with loan proceeds, as well as a second secured interest in all business assets. Upon maturity, by acceleration or otherwise, Intellinetics Ohio was required to pay a loan participation fee of \$101,250, which was accounted for as a loan premium, accreted monthly, utilizing the interest method, over the term of the Authority Loan No. 1. In June 2014, Intellinetics Ohio and the Ohio State Development Authority entered into a Notice and Acknowledgement of Modification to Payment Schedule relating to Authority Loan No.1, deferring a portion of the principal and interest payment until June 1, 2015. On September 25, 2015, Intellinetics Ohio and the Ohio State Development Authority entered into a Third Amendment to the Loan Agreement related to Authority Loan No. 1, deferring a portion of the principal payment until October 1, 2016 and extending the maturity date until August 1, 2018.

On June 3, 2011, Intellinetics Ohio issued a note payable to the Ohio State Development Authority in the amount of \$750,000, bearing interest at a rate of 1% per annum for the first 12 months, then interest at a rate of 7% per annum for the second 12 months ("Authority Loan No. 2," and together with Authority Loan No. 1, the "Authority Loans"). Intellinetics Ohio was not obligated to remit payments of principal until September 1, 2013. The monthly principal and interest payments, beginning on the third anniversary of the loan origination, was \$14,850 and was payable on a monthly basis through August 1, 2018. The Authority Loan No. 2 was secured by a senior secured interest on all business assets financed with loan proceeds, as well as a second secured interest in all business assets. Upon maturity, by acceleration or otherwise, Intellinetics Ohio was required to pay a loan participation fee of \$75,000, which was accounted for as a loan premium, accreted monthly utilizing the interest method, over the term of the Authority Loan No. 2. The interest rate of 1% during the first 12 months of this loan was considered to be below market for that period. Intellinetics Ohio further determined that over the life of the Authority Loan No. 2, the effective interest rate was 5.6% per annum. Accordingly, during the first 12 months of the Authority Loan No. 2, Intellinetics Ohio recorded interest expense at the 5.6% rate per annum. The difference between the interest expense accrual at 5.6% and the stated rate of 1% over the first 12 months was credited to deferred interest. The deferred interest amount that was accumulated over the first 12 months of the loan term was amortized as a reduction to interest expense over the remaining term of the Authority Loan No. 2. On December 31, 2017 and 2016, deferred interest of \$0 and \$158,062, respectively, was reflected within long-term liabilities on the accompanying consolidated balance sheets. In June 2014, Intellinetics Ohio and the Ohio State Development Authority entered into a Notice and Acknowledgement of Modification to Payment Schedule, deferring a portion of the principal and interest payment until June 1, 2015. On September 25, 2015, Intellinetics Ohio and the Ohio State Development Authority entered into a Third Amendment to the Loan Agreement related to Authority Loan No. 2, deferring a portion of the principal payment until October 1, 2016.

The Authority Loans were granted to Intellinetics Ohio in connection with the State of Ohio's economic development programs. The proceeds from these loans were used by Intellinetics Ohio to support its efforts in developing software solutions for its customers.

On November 17, 2017, proceeds from the issuance of convertible promissory notes were used in a negotiated settlement in the amount of \$525,000 with the Ohio State Development Authority to retire Authority Loan No. 1 and Authority Loan No. 2 with combined principal, accrued interest, and accrued fees totaling \$944,090. The settlement amount of \$525,000 included paying principal of \$487,663 in full and \$37,337 in accrued interest and fees. For the twelve months ended December 31, 2017, a gain on retirement of debt of \$419,090 was reflected within other income on the consolidated statements of income, representing basic and diluted net income per share of \$0.02.

The Company evaluated the terms of its convertible notes payable in accordance with ASC 815 – 40, Derivatives and Hedging - Contracts in Entity’s Own Stock and determined that the underlying common stock is indexed to the Company’s common stock. The Company determined that the conversion feature did not meet the definition of a liability and therefore did not bifurcate the conversion feature and account for it as a separate derivative liability. The Company evaluated the conversion feature for a beneficial conversion feature. The effective conversion price was compared with the market price on the date of each note. If the conversion price was deemed to be less than the market value of the underlying common stock at the inception of the note, then the Company would recognize a beneficial conversion feature resulting in a discount on the note payable, upon satisfaction of the contingency. The beneficial conversion features are amortized to interest expense over the life of the respective notes, starting from the date of recognition.

Between June 24, 2014 and July 7, 2014, the Company issued convertible promissory notes in an aggregate amount of \$135,000 to two accredited investors (“2014 Unrelated Notes.”) The notes matured on December 31, 2015, and bore interest at an annual rate of interest of 10% until maturity, with interest payable quarterly. The note investors had a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.56 per Share. Because the notes had not been fully repaid by the Company or converted into Shares prior to maturity, the notes began accruing interest at the annual rate of 12% commencing on the maturity date. The Company used the proceeds for working capital, general corporate purposes, and debt repayment. On January 6, 2016, the note investors converted \$135,000 of the notes and accrued interest thereon of \$35,038 into 303,912 Shares and 141,698 warrants to purchase Shares, as part of a private placement and note exchange commenced in December 2015. The warrants have an exercise price equal to \$0.65 per Share and contain a cashless exercise provision. All warrants are immediately exercisable and are exercisable for five years from issuance. Interest expense of \$113,762 was recorded on the issuance of these warrants.

On December 30, 2016, the Company issued convertible promissory notes in an aggregate amount of \$315,000 (“2016 Unrelated Notes”) to unrelated accredited investors. Between January 6, 2017 and January 31, 2017, the Company issued a total of \$560,000 of convertible promissory notes to unrelated accredited investors. Placement agent and escrow agent fees of \$87,360 and \$12,895 were deducted from the respective cash proceeds. The notes mature on December 31, 2018, and bear interest at an annual rate of interest of 12% until maturity, with partial interest of 6% payable quarterly. The note investors have a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.65 per Share. If the notes have not been fully repaid by the Company by the maturity date or converted into Shares at the election of the note investors prior to maturity, then such notes will accrue interest at the annual rate of 14% from the maturity date until the date the notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 8% instead of 6%. The Company used the proceeds of the notes for working capital, general corporate purposes, and debt repayment. The Company recognized a beneficial conversion feature in the amount of \$369,677. Interest expense recognized on the amortization of the beneficial conversion feature was \$180,508 and \$0 for the twelve months ended December 31, 2017 and 2016, respectively.

On November 17 and November 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$1,760,000 (“2017 Unrelated Notes”) to unrelated accredited investors. Placement agent and escrow agent fees of \$73,300 and \$101,510 were deducted from the respective cash proceeds. The notes mature on November 30, 2019, and bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning July 1, 2018. The effective interest rate is 6% for the term of the notes. The note investors have a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.20 per Share. If the notes have not been fully repaid by the Company by the maturity date or converted into Shares at the election of the note investors prior to maturity, then such notes will accrue interest at the annual rate of 12% from the maturity date until the date the notes are repaid in full. The Company will use the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

The table below reflects all notes payable at December 31, 2017 and 2016, respectively, with the exception of related party notes disclosed in Note 8 - Notes Payable - Related Parties.

	December 31, 2017	December 31, 2016
Authority Loan No. 1, due August 1, 2018	\$ -	\$ 353,346
Authority Loan No. 2, due August 1, 2018	-	433,115
2016 Unrelated Notes	685,831	193,846
2017 Unrelated Notes	1,760,000	-
Total notes payable	\$ 2,445,831	\$ 980,307
Less unamortized debt issuance costs	(349,447)	(34,029)
Less current portion	(875,000)	(360,496)
Long-term portion of notes payable	\$ 1,221,384	\$ 585,782

Future minimum principal payments of these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, as described in this Note 7 are as follows:

For the Twelve-Months Ending December 31,	Amount
2018	\$ 875,000
2019	1,570,831
Total	<u>\$ 2,445,831</u>

As of December 31, 2017 and 2016, accrued interest for these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, was \$70,304 and \$282,147, respectively, and was reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of December 31, 2017 and 2016, accrued loan participation fees were \$0 and \$172,659, respectively, and reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of December 31, 2017 and 2016, deferred financing costs were \$349,447 and \$34,029, respectively, and was reflected within long-term liabilities on the consolidated balance sheets.

With respect to all notes outstanding (other than the notes to related parties), for the twelve months ended December 31, 2017 and 2016, interest expense, including the amortization of deferred financing costs, accrued loan participation fees, original issue discounts, deferred interest and related fees, interest expense related to warrants issued for the conversion of convertible notes, and the embedded conversion feature was \$425,023 and \$190,560, respectively.

#### **8. Notes Payable - Related Parties**

On March 2, 2009, Intellinetics Ohio issued an unsecured promissory note payable to Jackie Chretien, mother of Matthew A. Chretien, a founder of the Company, in the amount of \$80,000 due January 1, 2016, as amended, and bearing interest at 5% per annum, with the principal and interest to be paid at maturity. On January 1, 2016, Intellinetics Ohio paid in full the note payable of \$15,000 and accrued interest of \$4,403.

On December 29, 2001, Intellinetics Ohio issued an unsecured promissory note payable to A. Michael Chretien, a founder of the Company, in the amount of \$55,167, with any unpaid principal and interest due on January 1, 2016, as amended. On January 1, 2016, Intellinetics Ohio paid in full the principal balance of \$40,415 plus accrued interest of \$7,053.

On March 29, 2012, the Company issued an unsecured promissory note payable to Ramon Shealy, a then-director of the Company, who subsequently resigned from the Company's board of directors ("Board of Directors") on December 17, 2012, for personal reasons, in the amount of \$238,000, bearing interest at a rate of 10% for the term of the note. All principal and interest was due and payable on September 27, 2012, but was later extended to November 24, 2012. On April 16, 2012, the Company issued another promissory note payable to Mr. Shealy, in the amount of \$12,000, bearing interest at a rate of 10% per quarter. All principal and interest was due on July 15, 2012, but was later extended to November 24, 2012. On November 24, 2012, the two notes were cancelled and replaced with a \$250,000 promissory note, under the same terms, with a maturity date of January 1, 2014. On December 24, 2013, the maturity date of the \$250,000 promissory note was extended to January 1, 2015. On March 13, 2013, the Company paid \$100,000 of the principal amount of the \$250,000 promissory note to Mr. Shealy. On December 31, 2014, the Company and Ramon Shealy agreed to extended payment terms for the remaining total principal and interest in the amount of \$193,453, payable in sixty (60) monthly installments beginning January 31, 2015, with a maturity date of January 1, 2020. As of December 31, 2017 and, 2016, this Note had a principal balance of \$92,439 and \$127,408, respectively. As of December 31, 2017 this Note had \$770 of accrued interest.

On November 30, 2016, the Company issued convertible promissory notes in a maximum aggregate principal amount of \$225,000 to Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company's Shares) and Robert Schroeder (Director) ("2016 Bridge Notes"). The notes had a maturity date of December 1, 2017, bearing interest at an annual rate of interest of 8% until maturity. Each note holder had a right, in their sole discretion, to convert the notes into securities to be issued by the Company in a private placement of equity, equity equivalent, convertible debt or debt financing. Interest expense recognized for the twelve months ended December 31, 2016 was \$1,125. On December 30, 2016, the Bridge Notes were converted by the note holders into the 2017 Related Notes, described below.

On December 30, 2016, the Company issued convertible promissory notes in an aggregate amount of \$375,000 (the “2016 Related Notes”) to accredited investors, including Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company’s Shares) and Robert Schroeder (Director), in exchange for the conversion of \$225,000 principal from the Bridge Notes and \$150,000 cash. The notes bear interest at an annual rate of interest of 12 percent until maturity, with partial interest of 6% payable quarterly, and mature on December 31, 2018. The note investors have a right, in their sole discretion, to convert the notes into Shares at a conversion rate of \$0.65 per Share. If the notes have not been fully repaid by the Company by the maturity date or converted into Shares at the election of the note investors prior to the maturity date, then such notes will accrue interest at the annual rate of 14% from the maturity date until the date the notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 8% instead of 6%. The Company used the proceeds of the notes for working capital, general corporate purposes, and debt repayment. The Company recognized a beneficial conversion feature in the amount of \$144,231. Interest expense recognized on the amortization of the beneficial conversion feature was \$72,115 and \$0 for the twelve months ended December 31, 2017 and 2016, respectively.

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

On November 17, 2017, the Company issued convertible promissory notes in an aggregate amount of \$390,000 (the “2017 Related Notes”) to accredited investors, including Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company’s Shares) and James DeSocio (Executive Officer and Director), in exchange for the conversion of \$150,000 principal from the 2017 Bridge Notes and \$240,000 cash. The notes mature on November 30, 2019, and bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning July 1, 2018. The effective interest rate is 6% for the term of the notes. The note investors have a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.20 per Share. If the notes have not been fully repaid by the Company by the maturity date or converted into Shares at the election of the note investors prior to maturity, then such notes will accrue interest at the annual rate of 12% from the maturity date until the date the notes are repaid in full. The Company will use the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

The table below reflects Notes payable due to related parties at December 31, 2017 and 2016, respectively

	December 31, 2017	December 31, 2016
The \$250,000 Shealy Note	\$ 92,439	\$ 127,408
2016 Related Notes	302,885	230,769
2017 Related Notes	390,000	-
Total notes payable - related party	\$ 785,324	\$ 358,177
Unamortized debt issuance costs	(55,675)	(20,423)
Less current portion	(416,969)	(38,307)
Long-term portion of notes payable-related party	\$ 312,680	\$ 299,447

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

For the Twelve Months Ending December 31,	Amount
2018	\$ 416,969
2019	368,355
<b>TOTAL</b>	<b>\$ 785,324</b>

As of December 31, 2017 and 2016, accrued interest for these notes payable – related parties amounted to \$29,997 and \$1,125, respectively.

For the twelve months ended December 31, 2017 and 2016, interest expense in connection with notes payable – related parties was \$184,828 and \$15,772 respectively.

## 9. Deferred Compensation

Pursuant to the Company's employment agreements with the founders, the founders have earned incentive compensation totaling \$213,166 and \$215,012 in cash, as of December 31, 2017 and 2016, respectively, which payment obligation has been deferred by the Company until it reasonably believes it has sufficient cash to make the payment. Following the retirement of founder A. Michael Chretien on December 8, 2017, the Company expects to make bi-weekly payments of \$1,846 until the deferred compensation has been paid, which will comprise 61 full payments and one partial payment of \$1,569. For the twelve months ended December 31, 2017, the Company paid \$1,846 which is reflected as a reduction in the deferred compensation liability.

## 10. Commitments and Contingencies

### *Employment Agreements*

The Company has entered into employment agreements with three of its key executives. Under their respective agreements, the executives serve at will and are bound by typical confidentiality, non-solicitation and non-competition provisions. Deferred compensation for the founders of the Company, as disclosed in note 9 above, is still outstanding as of December 31, 2017.

### *Operating Leases*

On January 1, 2010, the Company entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio. The lease commenced on January 1, 2010 and, pursuant to a lease extension dated August 9, 2016, the lease expires on December 31, 2021.

Future minimum lease payments under this operating lease are as follows:

For the Twelve Months Ending December 31,	Amount
2018	\$ 51,696
2019	52,992
2020	54,288
2021	55,656
	<b>\$ 214,632</b>

Rent expense charged to operations for the twelve months ended December 31, 2017 and 2016 amounted to \$53,006 and \$40,500, respectively.



## 11. Stockholders' Equity

### *Description of Authorized Capital*

The Company is authorized to issue up to 50,000,000 Shares of common stock with \$0.001 par value. The holders of the Company's common stock are entitled to one (1) vote per Share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. However, the current policy of the Board of Directors is to retain earnings, if any, for the operation and expansion of the business. Upon liquidation, dissolution or winding-up of the Company, the holders of common stock are entitled to share ratably in all assets of the Company that are legally available for distribution.

### *Sales of Unregistered Securities and Conversion of Convertible Promissory Notes*

In 2015, the Company commenced a private offering of securities (the "Equity Offering") with certain accredited investors for up to 1,666,666 units for a price of \$1.20 per unit (the "Units"). Each Unit consisted of two Shares and a warrant to purchase one Share. The warrants are exercisable to purchase one Share at an exercise price of \$0.65 per Share, contain a cashless exercise provision, and are exercisable for five years after issuance. Simultaneously with this Equity Offering, the Company also offered to existing noteholders the ability to convert into common stock any outstanding convertible notes issued by the Company, plus accrued interest, at each note's conversion price (the "Note Conversion Offering"). In addition, upon such conversion, noteholders received warrants containing the same exercise terms and price as investors in the Equity Offering. A portion of the Equity Offering and Note Conversion Offering was completed in 2015, with the remainder of the offering closing in 2016. On January 6, 2016, noteholders converted \$135,000 of convertible promissory notes with accrued interest of \$35,038 into 303,912 Shares and also received 141,698 warrants, as part of the Note Conversion Offering. On January 25, 2016, the Company entered into security purchase agreements with accredited investors for 506,599 Units, which consisted of 1,013,198 Shares with 506,599 warrants for aggregate cash proceeds of \$607,919, as part of the Equity Offering.

The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the Equity Offering and the Note Conversion Offering. In compensation, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the Equity Offering and of the face value of the current outstanding convertible promissory notes that were converted in the Note Conversion Offering, along with warrants to purchase Shares, and the reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. On January 27, 2016, the Company paid the placement agent cash in the amount of \$62,237 and issued the placement agent 131,682 warrants to purchase Shares at an exercise price at \$0.715 per Share, under the terms of the Placement Agent Agreement for the Equity Offering and the Note Conversion Offering. Of the warrants issued to the placement agent, 30,363 warrants were issued in conjunction with the Note Conversion Offering, and underwriting expense of \$24,207 was recorded for the issuance of these warrants.

During the twelve months ended December 31, 2017 and 2016, the Company charged \$0 and \$113,762, respectively, in interest expense for the warrants issued to the Noteholders and \$0 and \$24,207, respectively, in underwriting expenses in regards to the warrants issued to the Placement Agent for the convertible promissory notes, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.80.

The estimated values of warrants, as well as the assumptions that were used in calculating such values were based on estimates at the issuance date as follows:

	Noteholders	Placement Agent
Risk-free interest rate	1.76%	1.54%
Weighted average expected term	5 years	5 years
Expected volatility	134.18%	134.18%
Expected dividend yield	0.00%	0.00%

Pursuant to the terms of the Equity Offering and the Note Conversion Offering, the Company agreed to file a registration statement with the SEC covering the re-sale of the Shares sold in the Equity Offering and the Note Conversion Offering and the Shares issuable upon exercise of the Placement Agent warrants. The registration statement was declared effective on May 5, 2016.

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

On January 5, March 22, and December 19, 2017, the Company issued 61,110; 2,941; and 50,780 Shares, respectively, of restricted common stock to directors of the Company as part of an annual compensation plan for directors. On January 2, 2016, the Company issued 69,443 Shares of restricted common stock to directors of the Company in accordance with the 2015 Plan, and as part of an annual compensation plan for directors. The grant of Shares was not subject to vesting. Stock compensation of \$65,625 and \$62,500 was recorded on the issuance of the common stock for the years ended December 31, 2017 and 2016, respectively.

#### ***Exercise of Warrants***

On July 11, 2016, an investor exercised 41,666 warrants to purchase Shares through a cashless exercise for which he received 14,583 Shares at an exercise price of \$.65 per Share.

On August 24, 2016, 22,589 warrants issued to the Placement Agent were exercised to purchase Shares through a cashless exercise for which it obtained 6,275 Shares at an exercise price of \$.715 per Share.

On February 15, 2013, the Company and A. Michael Chretien, a member of the Board of Directors, entered into a return to treasury agreement, whereby A. Michael Chretien returned 500,000 Shares to the Company. As consideration for A. Michael Chretien returning to the Company treasury these 500,000 Shares, the Company issued one four-year warrant to A. Michael Chretien with a right to purchase 500,000 Shares at \$0.007 per Share within four years of the shareholders of the Company increasing the number of authorized Shares, with piggyback registration rights. The warrant had a right of first refusal for A. Michael Chretien to exercise up to 500,000 Shares prior to the Company issuing Shares in any transaction. On February 15, 2016, A. Michael Chretien exercised the warrant and purchased 500,000 Shares at \$0.007 per Share.

On February 15, 2013, the Company and Matthew Chretien, a member of the Board of Directors, entered into a return to treasury agreement dated February 15, 2013, whereby Matthew Chretien returned 500,000 Shares to the Company. As consideration for Matthew Chretien returning to the Company treasury these 500,000 Shares, the Company issued one four-year warrant to Matthew Chretien with a right to purchase 500,000 Shares at \$0.007 per Share within four years of the shareholders of the Company increasing the number of authorized Shares, with piggyback registration rights. The warrant had a right of first refusal for Matthew Chretien to exercise up to 500,000 Shares prior to the Company issuing Shares in any transaction. On January 3, 2017, Matthew Chretien exercised the warrant and purchased 496,111 Shares at \$0.007 per Share through a cashless exercise.

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

On November 30, 2016, the Company issued 56,250 warrants to purchase one Share to Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company's Shares) and Robert Schroeder (Director) in connection with the convertible promissory notes issued on November 30, 2016 (the "Bridge Notes"). The warrants are exercisable to purchase one Share at an exercise price of \$0.68 per Share, contain a cashless exercise provision, and are exercisable for five years after issuance. During the twelve months ended December 31, 2016, expense of \$32,192 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.57.

Between December 30, 2016 and January 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$1,250,000 with certain accredited investors. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the Convertible Note Offering. In compensation, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase Shares, and the reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. Subsequent to December 31, 2016, the Company paid the placement agent cash in the amount of \$100,000 and issued the placement agent 153,846 warrants to purchase Shares at an exercise price at \$0.75 per Share, which are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and were entitled to piggyback registration rights with respect to the Registration Statement of the Company made effective in February 2018. Of the warrants issued to the placement agent, 84,923 warrants were issued in conjunction with proceeds raised in December 2016, and underwriting expense of \$65,243 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The remaining 68,923 warrants were issued in conjunction with proceeds raised in January 2017, and underwriting expense of \$52,951 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.77.

On September 21, 2017, the Company issued 150,000 warrants to purchase one Share to Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company's Shares) in connection with the 2017 Bridge Notes. The warrants are exercisable to purchase one Share at an exercise price of \$0.30 per Share, contain a cashless exercise provision, and are exercisable for five years after issuance. A debt discount of \$38,837 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The 2017 Bridge Notes were converted into the November 2017 Convertible Note Offering, and interest expense of \$38,837 for amortization of the debt discount was recognized for the twelve months ended December 31, 2017. The fair value of warrants issued was determined to be \$0.26.

Between November 17 and November 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$2,150,000 with certain accredited investors. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the November 2017 Convertible Note Offering. In compensation, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase Shares, and the reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. On November 17, 2017, the Company paid the placement agent cash in the amount of \$172,000 and issued the placement agent 354,000 warrants to purchase Shares at an exercise price at \$0.25 per Share, which are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and were entitled to piggyback registration rights with respect to the Registration Statement of the Company made effective in February 2018. On November 30, 2017, the Company issued the placement agent 506,000 warrants to purchase Shares at an exercise price at \$0.25 per Share, which will be exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and are entitled to registration rights. Debt issuance costs of \$126,603 was recorded for the issuance of the November 17 and November 30, 2017 warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.17 and \$0.13 for the November 17 and November 30 warrants, respectively. For the twelve months ended December 31, 2017, interest expense of \$9,434 was recorded as amortization of the debt issuance costs.

The estimated values of warrants, as well as the assumptions that were used in calculating such values were based on estimates at the issuance date as follows:

	Bridge Noteholders November 30, 2016	Placement Agent December 30, 2016	Bridge Noteholders September 21, 2017
Risk-free interest rate	1.83%	1.93%	1.89%
Weighted average expected term	5 years	5 years	5 years
Expected volatility	123.94%	123.07%	130.80%
Expected dividend yield	0.00%	0.00%	0.00%
		Placement Agent November 17, 2017	Placement Agent November 30, 2017
Risk-free interest rate		2.06%	2.14%
Weighted average expected term		5 years	5 years
Expected volatility		129.87%	129.34%
Expected dividend yield		0.00%	0.00%

**Shares Issued and Outstanding and Shares Reserved for Exercise of Warrants, Convertible Notes, and the 2015 Plan**

The Company has 17,426,792 Shares issued and outstanding, 5,926,625 Shares reserved for issuance upon the exercise of outstanding warrants, 13,400,126 Shares reserved for issuance upon the conversion of convertible debt, and 2,366,506 Shares reserved for issuance under the 2015 Plan, as of December 31, 2017.

**12. Share-Based Compensation**

On April 30, 2015, the Company entered into a Non-qualified Stock Option Agreement with Sophie Pibouin, a director of the Company, in accordance with the 2015 Plan. The agreement granted options to purchase 128,000 Shares prior to the expiration date of April 29, 2025 at an exercise price of \$0.75. The options granted vested on a graded scale over a period of time through October 31, 2015.

On April 30, 2015, the Company entered into a Non-qualified Stock Option Agreement with Murray Gross, a director of the Company, in accordance with the 2015 Plan. The agreement granted options to purchase 640,000 Shares prior to the expiration date of April 29, 2025 at an exercise price of \$0.75. 400,000 of the options granted immediately vested on the date of grant, and the remaining 240,000 options granted will vest upon the date at which the Company first reports two consecutive fiscal quarters with revenues of One Million Dollars (\$1,000,000) each. The unvested options were not exercisable after the director's termination of continuous service, on September 30, 2017, as defined in the agreement.

On January 1, 2016, the Company granted employees stock options to purchase 250,000 Shares at an exercise price of \$0.90 per Share in accordance with the 2015 Plan, with vesting continuing until 2019. The total fair value of \$196,250 for these stock options will be recognized by the Company over the applicable vesting period.

On February 10, 2016, the Company granted employees stock options to purchase 210,000 Shares at an exercise price of \$0.96 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$174,748 for these stock options will be recognized by the Company over the applicable vesting period.

On December 6, 2016, the Company granted one employee stock options to purchase 100,000 Shares at an exercise price of \$0.76 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$63,937 for these stock options will be recognized by the Company over the applicable vesting period.

On March 15, 2017, the Company granted one employee stock options to purchase 100,000 Shares at an exercise price of \$0.85 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$70,872 for these stock options would have been recognized by the Company over the applicable vesting period. These options were forfeited upon the termination of the employee and expiry of the exercise period. The total stock option compensation for the twelve months ended December 31, 2017 was \$19,563.

On September 25, 2017, the Company granted an employee stock options to purchase 750,000 Shares at an exercise price of \$0.30 per Share and 500,000 Shares at an exercise price of \$0.38 per Share, in accordance with the 2015 Plan, with vesting continuing until 2019. The 500,000 Shares will vest quarterly through 2019, and they are also subject to availability contingencies relating to pending shareholder approval of an amendment to the 2015 Plan. The total fair value of \$321,011 for these stock options will be recognized by the Company over the applicable vesting period.

The weighted average estimated values of director and employee stock option grants, as well as the weighted average assumptions that were used in calculating such values during the twelve months ended December 31, 2017 and 2016, were based on estimates at the date of grant as follows:

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

  

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

A summary of stock option activity during the twelve months ended December 31, 2017 and 2016 under our stock option agreements is as follows:

	Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2016	768,000	\$ 0.75		
Granted	560,000	0.90		
Exercised	-			
Forfeited and expired	-			
Outstanding at December 31, 2016	<u>1,328,000</u>	\$ 0.81	9 years	<u>\$ 115,200</u>
Exercisable at December 31, 2016	<u>590,500</u>	\$ 0.77	8 years	<u>\$ 79,200</u>
Outstanding at January 1, 2017	1,328,000	\$ 0.81		
Granted	1,350,000	0.37		
Exercised	-			
Forfeited and expired	<u>(440,000)</u>	0.81		
Outstanding at December 31, 2017	<u>2,238,000</u>	\$ 0.55	9 years	<u>\$ 79,200</u>
Exercisable at December 31, 2017	<u>849,250</u>	\$ 0.70	8 years	<u>\$ 79,200</u>

The weighted-average grant date fair value of options granted during the twelve months ended December 31, 2017 and 2016 was \$0.29 and \$0.78, respectively.

As of December 31, 2017 and 2016, there was \$434,779 and \$492,057, 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 twelve months ended December 31, 2017 and 2016 was \$156,766 and \$49,062, respectively.

### 13. Concentrations

Revenues from the Company's services to a limited number of customers have accounted for a substantial percentage of the Company's total revenues. For the twelve months ended December 31, 2017, the Company's two largest customers, Ohio Department of Commerce, a direct client, and Tiburon, Inc., a Reseller, accounted for approximately 10%, each, of the Company's revenues for that period. For the twelve months ended December 31, 2016, the Company's two largest customers, Franklin County Data Center a direct end user and Tiburon, Inc. a Reseller, accounted for approximately 11% and 10%, respectively, of the Company's revenues for that period.

For the twelve months ended December 31, 2017 and 2016, government contracts represented approximately 41% and 40% of the Company's net revenues, respectively. A significant portion of the Company's sales to Resellers represent ultimate sales to government agencies.

As of December 31, 2017, accounts receivable concentrations from the Company's three largest customers were 39%, 12%, and 10% of gross accounts receivable, respectively, and as of December 31, 2016, accounts receivable concentrations from the Company's three largest customers were 20%, 19%, and 16% of gross accounts receivable, respectively. Accounts receivable balances from the Company's three largest customers at December 31, 2017 have been partially collected.

#### **14. Provision For Income Taxes**

For the years ended December 31, 2017 and 2016, we have recognized the minimum amount of state income tax as required by the states that we are required to file taxes in. We are not currently subject to further federal or state tax since we have incurred losses since our inception.

As of December 31, 2017, we had federal and state net operating loss carry forwards of approximately \$13,960,000, which can be used to offset future federal income tax. The federal and state net operating loss carry forwards expire at various dates through 2037. Deferred tax assets resulting from the net operating losses are reduced by a valuation allowance, when, in our opinion, utilization is not reasonably assured.

As of December 31, 2017, the deferred tax asset, primarily related to our net operating losses, was approximately \$2,970,000. A 100 % valuation allowance has been established on deferred tax assets at December 31, 2017 and 2016, due to the uncertainty of our ability to realize future taxable income.

#### **15. Subsequent Events**

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

On January 2, 2018, the Company issued 302,629 new Shares, respectively, of restricted common stock to directors of the Company in accordance with the Company's director compensation policy. Stock compensation of \$57,500 was recorded on the issuance of the common stock.

##### ***Registration Statement for Sales of Unregistered Securities - Convertible Promissory Notes***

Pursuant to the terms of the Equity Offering and the Note Conversion Offering, the Company agreed to file a registration statement with the SEC covering the Note Conversion Offering and the Shares issuable upon exercise of the Placement Agent warrants of November 17 and November 30, 2017. The registration statement was declared effective on February 8, 2018.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of the Company's Disclosure Controls and Procedures

The Company maintains "disclosure controls and procedures" as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act that are designed to ensure that information required to be disclosed by us in 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 our management, including our principal executive officer and principal financial officer, and Board of Directors, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance of achieving the desired objectives, and we necessarily are required to apply our judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures.

Our management, including our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2017 and concluded that our disclosure controls and procedures were not effective as of December 31, 2017 due to the material weakness that exists in our internal control over financial reporting, more fully described below.

#### Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes, in accordance with generally accepted accounting principles. The effectiveness of any system of internal control over financial reporting is subject to inherent limitations and therefore, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness of future periods are subject to the risk that the controls may become inadequate due to change in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, including our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting using the criteria set forth by the committee of Sponsoring Organization of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Based on our evaluation, our principal executive officer and principal financial officer concluded that, as a result of the material weakness described below, as of December 31, 2017, we did not maintain effective internal control over financial reporting, based on criteria issued by COSO.

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

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

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

We believe we are making progress toward achieving the effectiveness of our internal controls and disclosure controls. The actions that we are taking are subject to ongoing senior management review, as well as audit committee oversight. The Company will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that it deems appropriate given the circumstances. The material weakness will not be considered fully remediated until the controls operate effectively for a sufficient period of time. We will continue to assess the effectiveness of our internal control over financial reporting and take steps to remediate the known material weakness expeditiously.

This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to rules of the SEC that permit us to provide only management's report in this report.

#### Changes In Internal Control Over Financial Reporting

Other than the remediation described above, there were no changes in our internal control over financial reporting (as defined in Rules 13a-13(f) and 15d-15(f) under the Exchange Act) that occurred during our fourth fiscal quarter of the fiscal year ended December 31, 2017, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

### ITEM 9B. OTHER INFORMATION

Not applicable

**Part III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Incorporated by reference to our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2017.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated by reference to our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2017.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated by reference to our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2017.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated by reference to our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2017.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Incorporated by reference to our definitive Proxy Statement for the 2018 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2017.

**Part IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

Reference is made to the Index to Financial Statements beginning on Page F-1 hereof.

Financial Statement Schedules.

(a) Documents Filed as Part of Report

(1) Financial Statements.

(3) Exhibits.

The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report and such Exhibit Index is incorporated by reference.





**EXHIBIT INDEX**

Exhibit No.	Description	Incorporation by Reference		
		Form	Exhibit	Filing Date
3.1.1	<a href="#">Articles of Incorporation of Intellinetics, Inc.</a>	10-SB	3.1	10-02-2000
3.1.2	<a href="#">Certificate of Correction, effective May 22, 2007</a>	8-K	3.1	06-15-2007
3.1.3	<a href="#">Certificate of Amendment to Articles of Incorporation of Intellinetics, Inc.</a>	8-K	99.1	09-03-2014
3.2.1	<a href="#">Bylaws of Intellinetics, Inc.</a>	10-SB	3.3	10-02-2000
3.2.2	<a href="#">Amendment No. 1 to the Bylaws of Intellinetics, Inc.</a>	8-K	3.4	03-01-2012
4.1	<a href="#">Promissory Note by Intellinetics, Inc. in favor of Ramon Shealy in the principal amount of \$238,000, dated March 29, 2012.</a>	8-K/A	10.44	03-30-2012
4.2	<a href="#">The Promissory Note Second Extension Agreement by and among Intellinetics, Inc., and Ramon M. Shealy in the amount of \$238,000, dated August 27, 2012</a>	8-K	10.1	08-31-2012
4.3	<a href="#">The Promissory Note Third Extension Agreement by and among Intellinetics, Inc., and Ramon M. Shealy in the amount of \$238,000, dated October 24, 2012</a>	8-K	10.1	10-30-2012
4.4	<a href="#">The Promissory Note Fourth Extension Agreement by and among Intellinetics, Inc., and Ramon M. Shealy in the amount of \$238,000, dated November 24, 2012.</a>	10-K/A	4.20.2	04-30-2013
4.5	<a href="#">Promissory Note Fifth Extension Agreement, dated December 27, 2013, by and between Intellinetics, Inc. and Ramon M. Shealy</a>	8-K	10.2	01-02-2014
4.6	<a href="#">Promissory Note and Extension Agreement, dated December 31, 2014, by and between Intellinetics, Inc. and Ramon M. Shealy</a>	8-K	10.1	01-01-2015
4.7	<a href="#">Form of Placement Agent Warrants between the Company and the Placement Agent</a>	8-K	10.2	03-06-2013
4.8	<a href="#">Form of Stock Certificate</a>	S-1/A	4.1	02-06-2018
4.9	<a href="#">Form of Investor Warrant</a>	8-K	10.2	01-05-2016
4.10	<a href="#">Form of Placement Agent Warrants</a>	8-K	10.3	01-05-2016
4.11	<a href="#">Form of Noteholder Warrant</a>	8-K	10.5	01-05-2016
4.12	<a href="#">Form of Warrants dated November 30, 2016</a>	8-K	10.2	12-06-2016
4.13	<a href="#">Form of 12% Subordinated Convertible Note, dated December 30, 2016; January 6, 2017; and January 31, 2017</a>	8-K	10.2	01-06-2017
4.14	<a href="#">Form of Placement Agent Warrants, dated January 31, 2017</a>	8-K	10.3	01-06-2017
4.15	<a href="#">Form of Warrant to Purchase Common Stock, issued October 22, 2017</a>	8-K	10.2	10-26-2017
4.16	<a href="#">Form of 8% Secured Convertible Notes, dated November 17, 2017 and November 29, 2017</a>	8-K	10.2	11-24-2017
4.17	<a href="#">Amendment to 8% Secured Convertible Notes, dated March 28, 2018 +</a>			

4.18	<a href="#">Form of Placement Agent Warrants</a>	8-K	10.5	11-24-2017
10.1	<a href="#">Amended Employment Agreement of Matthew L. Chretien, dated September 16, 2011</a>	8-K	10.37	02-13-2012
10.2	<a href="#">Amended Offer of Employment of Matthew L. Chretien, dated September 16, 2011</a>	8-K	10.38	02-13-2012
10.3	<a href="#">Employment Agreement of Joseph D. Spain dated December 2, 2016</a>	8-K	10.3	12-06-2016
10.4	<a href="#">Lease Renewal Agreement by and between Intellinetics, Inc. and Dividend Drive LLC, dated as of August 9, 2016</a>	10-K	10.6	03-30-2017
10.5	<a href="#">Intellinetics, Inc. 2015 Equity Incentive Plan</a>	8-K	10.3	04-30-2015
10.6	<a href="#">First Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated September 25, 2017</a>	8-K	10.2	09-26-2017
10.7	<a href="#">Second Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated February 19, 2018</a>	8-K	10.2	02-23-2018
10.8	<a href="#">Form of Non-Qualified Stock Option Agreement under Company's 2015 Equity Incentive Plan</a>	10-K	10.9	03-28-2016
10.9	<a href="#">Form of Incentive Stock Option Agreement under Company's 2015 Equity Incentive Plan</a>	8-K	10.6	01-05-2016
10.10	<a href="#">Form of Securities Purchase Agreement between the Company and the Investors</a>	8-K	10.1	01-05-2016
10.11	<a href="#">Form of Note Purchase Agreement between the Company and the Noteholders</a>	8-K	10.4	01-05-2016
10.12	<a href="#">Form of Note Purchase Agreement, dated December 30, 2016; January 6, 2017; and January 31, 2017</a>	8-K	10.1	01-06-2017
10.13	<a href="#">Offer Letter, dated September 25, 2017, between Intellinetics, Inc. and James F. DeSocio</a>	8-K	10.1	09-26-2017
10.14	<a href="#">Form of Note Purchase Agreement, dated November 17, 2017; and November 29, 2017</a>	8-K	10.1	11-24-2017
10.15	<a href="#">Form of Security Agreement, dated November 17, 2017</a>	8-K	10.4	11-24-2017
10.16	<a href="#">Intellinetics, Inc. 2018 Executive Incentive Compensation Plan</a>	8-K	10.3	02-23-2018
21.1	<a href="#">List of Subsidiaries of Intellinetics, Inc. +</a>			
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 +</a>			
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 +</a>			
32.1	<a href="#">Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 +</a>			
32.2	<a href="#">Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 +</a>			
101.INS	XBRL Instance Document +			
101.SCH	XBRL Taxonomy Extension Schema Document +			
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document +			
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document +			
101.LAB	XBRL Taxonomy Extension Label Linkbase Document +			
101.PRE	XBRL Taxonomy Extension Linkbase Document +			

+ Filed herewith:



**AMENDMENT**

**to**

**8% SECURED CONVERTIBLE NOTE  
DUE NOVEMBER 30, 2009**

This Amendment ("Amendment") to the 8% Secured Convertible Notes due November 30, 2009, dated November 17, 2017 and November 29, 2017 (the "Notes") is entered into and effective as of the last date indicated below, by and between Intellinetics, Inc., a Nevada corporation (the "Company") and the holders of the Notes (the "Holders").

WHEREAS, Company and the Holders entered into the Notes, effective November 17, 2017, and November 29, 2017; and

WHEREAS, the Notes may be amended in accordance with Section 9.e of the Notes by a written instrument signed by the Company and the holders of at least 51% in principal amount of the then outstanding Notes (the "Required Holders").

WHEREAS, the Company and the Required Holders desire to amend the Notes to permit the Company to continue making payments to a pre-existing creditor and waive such payments made by the Company prior to the date of this Amendment.

NOW THEREFORE, the parties agree as follows:

1. Section 7.e of the Notes is hereby deleted and replaced in its entirety with the following:

e) repay, repurchase or offer to repay, repurchase or otherwise acquire any indebtedness, other than (i) the Notes if on a pro-rata basis; or (ii) currently existing indebtedness of the Company to Ray Shealy.

2. The Holders hereby agree to waive all of their rights under the Notes for any claims against the Company for breach or default of the Notes with respect to any payments made by the Company to Ray Shealy during the period commencing November 17, 2017 and ending with the effective date of this Amendment. Such prior payments are hereby ratified and approved by the Holders.

3. Except as set forth herein, the terms of the Notes shall remain in full force and effect.

4. This Amendment may be signed in multiple counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

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IN WITNESS WHEREOF, the parties have executed this Amendment as of the date of the last signature of a Required Holder hereto.

REQUIRED HOLDER

*/s/ Required Holders*

Print Name: Required Holders

Date: 3/28/2018

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INTELLINETICS, INC.

By: /s/ James F. DeSocio

Name: James F. DeSocio

Title: President & CEO

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**Subsidiaries of the Registrant**

Listed below are the subsidiaries of Intellinetics, Inc. as of December 31, 2017. Intellinetics, Inc. has only one subsidiary.

<u>Subsidiary Name</u>	<u>State/Jurisdiction of Incorporation</u>
1. Intellinetics, Inc.	Ohio

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

I, James F. DeSocio, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: April 2, 2018

By: /s/ James F. DeSocio

President and Chief Executive Officer

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

I, Joseph D. Spain, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: April 2, 2018

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

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

In connection with the Annual Report of Intellinetics, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission (the "Report"), I, Matthew L. Chretien, 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: April 2, 2018

By: /s/ James F. DeSocio

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President and Chief Executive Officer

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

In connection with the Annual Report of Intellinetics, Inc. (the "Company") on Form 10-K for the year ended December 31, 2017, 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: April 2, 2018

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

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