REFINITIV

DELTA REPORT

10-K

INLX - INTELLINETICS, INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	1574
CHANGES	9
DELETIONS	1562
ADDITIONS	3

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, 2022

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: 001-41495

INTELLINETICS, INC.

(Exact name of registrant as specified in its charter)

Nevada	87-0613716
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2190 Dividend Drive
Columbus, Ohio43228
(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	Trading symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	INLX	NYSE American

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

☐

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. $13,991,130.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. **4,073,757 shares of common stock, par value $0.001 per share, were outstanding as of March 23, 2023.**

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the 2023 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, 2022, 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 report by reference contain, and we may from time to time make, forward-looking statements. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical facts, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words “may,” “could,” “should,” “would,” “will,” “project,” “intend,” “continue,” “believe,” “anticipate,” “estimate,” “forecast,” “expect,” “plan,” “potential,” “opportunity,” “scheduled,” “goal,” “target,” and “future,” variations of such words, and other comparable terminology and similar expressions and references to future periods are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, among other things, statements about the following:

- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current global inflation, economic downturn, and other economic and market conditions, and their effects on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;
- our prospects, including our future business, revenues, recurring revenues, expenses, net income, earnings per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our targeted growth rate, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;
- our expectation that the shift from an offline to online world will continue to benefit our business;
- our ability to integrate our recent acquisitions and any future acquisitions, grow their businesses and obtain the expected financial and operational benefits from those businesses;
- the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, liquidity, financial condition and results of operations;
- our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers’ requirements, and our ability to successfully develop and market new products, services, technologies and systems;
- our markets, including our market position and our market share;
- our ability to successfully develop, operate, grow and diversify our operations and businesses;
- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;
- the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;
- the amount and timing of revenue recognition from customer contracts with commitments for performance obligations, including our estimate of the remaining amount of commitments and when we expect to recognize revenues;
- industry trends and customer preferences and the demand for our products, services, technologies and systems; and
- the nature and intensity of our competition, and our ability to successfully compete in our markets.

Any forward-looking statements we make are based on our current plans, intentions, objectives, strategies, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in “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

Securities and Exchange Commission (the “SEC”). In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

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

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

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

PART I

ITEM 1. BUSINESS

Company Overview

Intellinetics is a Nevada holding company incorporated in 1997, with two wholly-owned subsidiaries: (i) Intellinetics, Ohio, an Ohio corporation and (ii) Graphic Sciences, a Michigan corporation. 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. On March 2, 2020, Intellinetics purchased Graphic Sciences, Inc.

We are a document services and software solutions company serving both the small-to-medium business and governmental sectors with their digital transformation and process automation initiatives. On April 1, 2022, we made a significant business acquisition that has significantly impacted our financial operations and grown our business operations. For further information about this acquisition, please see Note 4 to our consolidated financial statements included in Item 8, Part I, Item 1 of this Annual Report.

Our digital transformation products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes the Yellow Folder, LLC ("Yellow Folder") asset acquisition in April 2022, consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as long-term storage and retrieval services. Our solutions create value for customers by making it easy to connect business-critical documents to the people who need them by making those documents easy to find and access, while also being secure and compliant with the customers' audit requirements. Solutions are sold both directly to end-users and through resellers.

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

We operate a U.S.-based business with concentrated sales to the State of Michigan for our Document Conversion segment, complemented by our diverse set of document management software solutions and services. We hold or compete for leading positions regionally in select markets and attribute this leadership to several factors including the strength of our brand name and reputation, our comprehensive offering of innovative solutions, and the quality of our service support. Net growth in sales of software as a service in recent years reflects market demand for these solutions over traditional sales of on-premise software. We expect to continue to benefit from our select niche leadership market positions, innovative product offerings, growing customer base, and the impact of our sales and marketing programs. Examples of these programs include identifying and investing in growth and expanded market penetration opportunities, more effective products and services pricing strategies, demonstrating superior value to customers, increasing our sales force effectiveness through improved guidance and measurement, and continuing to optimize our lead generation and lead nurturing processes.

Software and Services

Document Management

Our flagship software platforms include a) IntelliCloud™, reflecting our focus, and the market's focus, on growth via cloud-based content management and process automation, and b) YellowFolder™, a specialized content management software solution for the K-12 education market. Our Document Management business also generates software-related professional services that include installation, integration, training, and consulting services, as well as ongoing software maintenance and customer support.

The IntelliCloud™ suite of software is comprised of stand-alone and integrated modules that include:

- 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;
- Accounts Payable lifecycle automation, including advanced capture for invoice processing.
- 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 for assigning work tasks and approvals, and creating related audit trails, notifications, and escalations; and
- Extended Components: includes document composition and e-forms (via third party OEM integration partnership), search, content and web analytics (via third party data visualization and advanced OCR engine partnerships), email and information archiving, and packaged application integration.

Document Conversion

We convert images from paper to digital, paper to microfilm, microfiche to microfilm, and micrographics to digital for businesses and federal, county, and municipal governments. Our Document Conversion business also provides its clients with long-term paper and microfilm storage and retrieval options.

The primary Document Conversion offerings are:

- Digital Scanning Services. These services include paper scanning, newspaper and microfilm scanning, microfiche scanning, aperture card scanning, drawing scanning, and book scanning. Most government files must be retained for long terms or permanently, making such clients a prime candidate for digital conversion. There are four production categories for these services, consisting of document prep, scanning, indexing, and delivery.
- Business Process Outsourcing (BPO). BPO contracts provide ongoing outsourcing of customer processes such as mail room activities, where we pick up customer mail from the post office, open it, sort it, scan it, and upload it to the appropriate customer system.
- Microfilm and Microfiche. We provide microfilming/microfiche conversion to digital, converting scanned images to microfilm or microfiche, and microfilm/microfiche preservation and duplication.
- Box Storage Services. We provide physical document storage and retrieval services for our clients.
- Scanning Equipment, Software and Repair. We sell and service document image software, document scanners, and microfilm scanners, readers and printers. This is a smaller, slowly declining part of our Document Conversion business.

Marketing and Sales

We have a multi-channel sales model that directs our sales efforts through direct sales and through intermediaries, such as independent software vendors, resellers and referral partners. Our Document Management and Document Conversion segments each use direct and reseller channels for sales. We have developed partner-specific marketing programs with 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 in both our direct and reseller channels. 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 existing and new reseller 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 that the trend toward electronic document management, and particularly cloud solutions, was accelerated by the COVID-19 pandemic.

We believe the primary competitors of our Document Management segment are DocuWare, Square 9, M-files, On-Base, FileBound, Frontline, Laserfiche, Harvest Technology Group, and PowerSchool, who also serve small-to-medium business (SMB), K-12 education, and governmental sectors. The principal competitive factors affecting the market for our document conversion 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 the competitors of our Document Conversion segment vary from local niche entities to larger entities, including Iron Mountain. The principal competitive factors affecting the market for our software products and services include: (i) vendor and services reputation and (ii) services quality, performance and price. We believe that the relative importance of each of these factors depends upon the concerns and needs of each specific customer, and that, for our current and prospective customers, maintaining secure control over the customers' information is highly valued.

We believe that the consolidated Company has advantages over our competitors in the small-to-medium business market, and particularly organizations in highly regulated, risk and compliance-intensive markets, such as state and local government, non-clinical health care, and K-12 education. In our view, we will remain competitive by remaining a focused niche provider with product offerings aligned with buyer-specific requirements. We anticipate that we will benefit from five specific advantages already in place:

- Turnkey cloud or premise document workflow and document conversion solutions targeting specific industry customers with benchmark value-to-price ratio;
- Rigorous quality review process and maintenance of customer data confidentiality in document conversions;
- Modular solution packaging and rapid customer activation model;
- Integrated on-demand solutions library as standard platform feature; and
- Expanded software integration tools that make it easier for independent software vendors to integrate and sell IntelliCloud software capabilities into their customer base.

We believe, with these competitive strengths, that we are well positioned as a cloud-based managed document services provider for the small-to-medium business and governmental sectors.

Customers

Document Management

Our Document Management segment in general has fairly low customer concentration. For 2022, the two largest customers of our Document Management segment accounted for approximately 7% and 2%, respectively, of the segment's revenues for that period. For 2021, the two largest customers of our Document Management segment accounted for approximately 10% and 4%, respectively, of the segment's revenues for that period.

For the years ended December 31, 2022, and 2021, government contracts, including K-12 education, represented approximately 77% and 56%, respectively, of the Document Management segment's net revenues, including a significant portion of the segment's sales to resellers which represent ultimate sales to government agencies. Due to their dependence on state, local and federal budgets, government contracts carry short terms, typically 12 months. Since our inception, our contracts with government customers have generally renewed on the original terms and conditions upon expiration.

Document Conversion

Our Document Conversion segment has significant customer concentration with the State of Michigan. Graphic Sciences' contract with the State of Michigan is for five years from June 1, 2018 to May 30, 2023 with a provision for two one-year extensions. The contract is issued to Graphic Sciences through the Michigan Department of Management and Budget, Enterprise Procurement and managed through the Department of Management and Budget, Records Management Services Division (RMS).

The contract provides local and state government agencies access to digital and micrographic conversion services. These agencies have the option to perform these conversion services internally or go out to bid if they so choose. Typically, they elect to have these services outsourced to Graphic Sciences through RMS, which eliminates the bidding process.

All Michigan agencies and departments are able to use the services and prices provided under this contract. Mechanically, the work we perform is invoiced to RMS and the end user is invoiced through the State of Michigan accounting system. We do not invoice the end user directly when entities utilize this contract facility, and we have a single point of contact for managing billing and receipt. The state in effect acts as a reseller of our services to the other agencies and makes a mark-up of what is charged. For 2022, the State of Michigan represented approximately 66% of our Document Conversion segment's net revenues, and 38% of the total consolidated revenues. Our second largest customer in 2022 was Rocket Mortgage, representing 11% of our Document Conversion segment's net revenues and 6% of the total consolidated revenues. For 2021, the State of Michigan represented approximately 64% of our Document Conversion segment's net revenues, and 47% of the total consolidated revenues. Rocket Mortgage represented approximately 12% of our Document Conversion segment's net revenues, and 9% of the total consolidated revenues in 2021.

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.

Software 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 discuss our accounting for such costs, and when we expense or capitalize, in more detail below in "Critical Accounting Policies and Estimates."

Government Regulation

Other than government procurement rules affecting sales to governmental customers and data privacy laws applicable to all businesses, 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.

Human Capital

As of March 23, 2023, we employed a total of 166 individuals; all but 27 are full-time employees. Graphic Sciences employs 119 individuals, comprised of 100 full-time and 19 part-time employees, all located in Michigan. Graphic Sciences also utilizes temporary employees, through various agencies, to provide labor for variable project work. Intellinetics Ohio employs 47 individuals, comprised of 39 full-time and 8 part-time employees, primarily located in Ohio and Texas. As a combined company, 21 of our employees work in administration and management, 34 of our employees work in software sales, maintenance and support, and software development, and 111 of our employees work in document services and storage operations.

We consider the integrity, experience, dedication, creativity, and team-oriented nature of our employees to be an essential driver of our business and a key to our future prospects. Personal relationships with our existing customers are an important part of our business, and our customers have come to rely on the personal service and knowledge of our workforce across all functional areas. To attract and retain qualified applicants to our company and retain our employees, we offer total benefits packages consisting of base salary or hourly wage (depending on position), a comprehensive benefits package, and equity compensation for certain employees. Annual cash bonuses are based on our profitability, achievement of targets and level of responsibility. When selecting talent, we consider education, experience, diversity, and the likelihood that a candidate will espouse our values of integrity, collaboration, dedication, creativity, and superior customer service.

We are committed to fostering a diverse and inclusive workforce that attracts and retains exceptional talent. In addition, we pride ourselves on an open culture that respects co-workers, values employees' health and well-being and fosters professional development. We support employee growth and development in a variety of ways including with training opportunities and an overall strategy of promotion from within. Our management conducts annual employee engagement surveys and, for supervisors and above, annual individual employee assessments with an emphasis on individual development for each employee.

We remain focused on protecting the health and safety of our employees with respect to COVID-19. In April of 2020, we instituted safe distancing practices and additional cleaning procedures for all company offices and facilities, and our offices in Michigan and Ohio were reconfigured to maintain physical distancing. Wherever feasible, we have encouraged employees to work from home. To date, our employees who work in software sales, maintenance and support, and software development continue to work remotely. Our remote working arrangements have not significantly affected our ability to maintain critical business operations.

We believe that relations with our employees are good. None of our employees are represented by a labor union, and we do not have collective bargaining arrangements with any of our employees. In addition, as of March 23, 2023, we engaged three independent contractors.

Executive Officers and Board of Directors

On December 31, 2022, our executive officers and directors included the following:

Name	Age	Title
James F. DeSocio	67	President, Chief Executive Officer, and Director
Matthew L. Chretien	55	Chief Strategy Officer, Chief Technology Officer, Secretary, and Director
Joseph D. Spain	55	Chief Financial Officer, Treasurer
William M. Cooke	61	Director, Chairman of the Board
Rye D'Orazio	68	Director
Sophie Pibouin	55	Director
Roger Kahn	53	Director
John Guttilla	66	Director

James F. DeSocio, President, Chief Executive Officer, and Director. Mr. DeSocio joined Intellinetics on September 25, 2017. Prior to joining Intellinetics, Mr. DeSocio 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 Intellinetics on October 31, 2016 and was appointed as its Chief Financial Officer on December 1, 2016. Prior to joining Intellinetics, 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.

William M. Cooke, Director. Mr. Cooke was appointed as a member and chairman of our board of directors in October 2021. Mr. Cooke joined Taglich Brothers, Inc., a New York-based full-service brokerage firm that specializes in placing and investing in private equity transactions for small public companies, in 2012 and participates in sourcing, evaluating, and executing new investments as well as monitoring existing investments. Prior to joining Taglich Brothers, he was a Managing Director of Glenwood Capital LLC from 2010 to 2012, where he advised middle-market clients on capital raising and mergers and acquisitions. From 2001 to 2009, he sourced, evaluated and executed mezzanine transactions for The Gladstone Companies and BHC Interim Funding II, L.P. Before entering the private equity industry, Mr. Cooke served as a securities analyst primarily covering the automotive and industrial sectors for ABN AMRO Incorporated and McDonald and Company Securities, Inc. Bill received his Bachelor of Arts degree from Michigan State University and Master of Business Administration degree from the University of Michigan. He is a Chartered Financial Analyst and a member of the Board of DecisonPoint Systems, Inc., Unique Fabricating, Inc., Racing & Performance Holdings, LLC and a former member of the board of directors of APR, LLC.

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.

Sophie Pibouin**,** Director**.** Ms. Pibouin was appointed as a member of our board of directors on March 20, 2015. Ms. Pibouin is currently employed by Progress Software as the VP Sales North America. Prior to that she was Head of Sales, U.S. for Resulticks. From 2014 to June 2019 Ms. Pibouin served as the worldwide Sales Leader of the IBM Watson marketing brand. Prior to that, 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.

John Guttilla, Director. Mr. Guttilla was appointed as a member of our board of directors on November 10, 2022. Mr. Guttilla serves as Financial Services Partner in Marcum LLP's Saddle Brook, NJ office. Mr. Guttilla joined Marcum in 2022 via a merger with RotenbergMeril, where he served as a member of the firm's management committee since 1988. Mr. Guttilla has more than 35 years of experience in both tax consulting and auditing for both public and private companies and his industry experience includes brokerage, private equity, foreign exchange trading, manufacturing, printing, hospitality, consumer products, real estate and professional services.

Available Information

Our Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all exhibits and 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) as soon as reasonably practicable after they are filed with, or furnished, to the SEC. The foregoing reports are also publicly available at the SEC's website: www.sec.gov/edgar.

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

General inflation and increases in the minimum wage and general labor costs have affected and may continue to adversely affect our business, financial condition and results of operations.

Labor is a significant portion of our cost structure and is subject to many external factors, including minimum wage laws, prevailing wage rates, unemployment levels, health insurance costs and other insurance costs and changes in employment and labor legislation or other workplace regulation. Most companies experienced an increase in labor costs in 2022 and expect additional increases in 2023. As the cost of labor and statutory minimum wage rates increase or related laws and regulations change, we will need to continue to increase not only the wage rates of our minimum wage employees, but also the wages paid to our other hourly or salaried employees. Increases in the cost of our labor could have an adverse effect on our business, financial condition and results of operations, or if we fail to pay such higher wages we could suffer increased employee turnover. Increases in labor costs generally could force us to increase prices for other customers, which could adversely impact our sales. For some customers with multi-year fixed pricing contracts, increases in the minimum wage could decrease our profit margins or result in losses and could have a material adverse effect on our business, financial condition and results of operations.

We have been and could continue to be negatively impacted by the novel coronavirus pandemic (COVID-19) and related governmental actions and orders and market effects.

The coronavirus pandemic (COVID-19) and related economic downturn continues to pose various and interrelated risks to our customers, our employees, our vendors and the communities in which we operate, which have all negatively impacted, and may continue to negatively impact, our business. From March 24, 2020 to current, customers have responded with varying levels of project postponements, particularly in our document conversion segment, which generally requires picking up boxes from customer sites. Our level of customer engagement in document conversion has varied with the ebb and flow of the initial virus and the subsequent variants and outbreaks. The State of Michigan, our largest customer, does not appear likely to return all of its agencies and departments to on site work at pre-pandemic levels. In addition, our business, financial condition and results of operations could be materially adversely affected by future outbreaks of COVID-19 generally or in our facilities. If the pandemic or its recovery continues to reduce customer's budgets and restrict business operations, the pandemic may have a material adverse effect on our business, results of operations, financial condition and cash flows and adversely impact the trading price of our common stock.

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 resellers 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 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.

If we are unable to continue to attract new customers and increase market awareness of our company and solutions, our revenue growth could be slower than we expect or could decline.

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. 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 attracting new customers by creating market awareness of our company and solutions, our business may be harmed.

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, could result in a reduction of the software under agreement and put pressure on our maintenance and support 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 a reduction or loss of 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.

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.

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 with our growth plans, 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.

We may be unable to acquire other businesses, technologies or companies or engage in other strategic transactions, and we may not be able to successfully realize the benefits of and may be exposed to a variety of risks from any such strategic transactions.

The acquisitions of Yellow Folder in 2022 and Graphic Sciences and CEO Imaging Systems, Inc., both in 2020, were our first strategic business acquisitions. As part of our growth strategy, we also expect to continue to evaluate and consider potential strategic transactions, including business combinations, acquisitions and strategic alliances, to enhance our existing businesses and to develop new products and services. At any given time, we may be engaged in discussions or negotiations with respect to one or more of these types of transactions, and any of these transactions could be material to our financial condition and results of operations. However, we do not know if we will be able to identify any future opportunities that we believe will be beneficial for us. Even if we are able to identify an appropriate business opportunity, we may not be able to successfully consummate the transaction, and even if we do consummate such a transaction we may be unable to obtain the benefits or avoid the difficulties and risks of such transaction.

Any future acquisition involves risks commonly encountered in business relationships, including:

- difficulties in assimilating and integrating the operations, personnel, systems, technologies, finance and accounting functions, internal controls, business policies, and products and services of the acquired business;
- technologies, products or businesses that we acquire may not achieve expected levels of revenue, profitability, benefits or productivity;
- we may not be able to achieve the expected synergies from an acquisition, or it may take longer than expected to achieve those synergies;
- unexpected costs and liabilities and unknown risks associated with the acquisition;
- diversion of management’s time and resources away from our daily operations;
- risks of entering markets in which we have no or limited direct prior experience;
- potential need for restructuring operations or reductions in workforce, which may result in substantial charges to our operations;
- incurring future impairment charges related to diminished fair value of businesses acquired as compared to the price we paid for them; and
- issuing potentially dilutive equity securities, or incurring debt or contingent liabilities, which could harm our financial condition.

We cannot assure you that we will make any additional acquisitions, or that any future acquisitions will be successful, will assist us in the accomplishment of our business strategy, or will generate sufficient revenues to offset the associated costs and other adverse effects or will otherwise result in us receiving the intended benefits of the acquisition. In addition, we cannot assure you that any future acquisition of new businesses or technology will lead to the successful development of new or enhanced customer relationships, products, and services, or that any new or enhanced products and services, if developed, will achieve market acceptance or prove to be profitable.

Risks Related to Product Development

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.

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.

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 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.

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.

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.

Financial Risks

We need to continue to maintain an effective system of internal controls, in order to be able to report our financial results accurately and timely and prevent fraud.

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. We maintain a small accounting and reporting staff, concentrated in a few individuals. Any future weaknesses in our internal controls and procedures over financial reporting could result in material misstatements in our consolidated 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 consolidated 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.

We may not be able to generate sufficient cash to service any indebtedness or contingent transaction consideration 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 or contingent transaction obligations that we have or 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 currently have approximately $1 million in principal amount of debt maturing from February to August of 2023, and approximately $3 million in principal amount of debt maturing in March of 2025. In addition, we have operated with a history of losses. For 2022, we had a net income of approximately zero (break even). For 2021, we had a net income of $1.4 million, including $0.8 million of PPP forgiveness. For 2020, we had a net loss of $2.2 million, including a change in fair value of earnout liabilities of $1.6 million. We have an accumulated deficit of $21.6 million as of December 31, 2022. Our ability to meet our capital needs in the future will depend on many factors, including maintaining and enhancing our operating cash flow, successfully managing the transition of our recent acquisitions, successfully retaining and growing our client base in the midst of general economic uncertainty including an inflationary environment, and managing any continuing effects of the COVID-19 pandemic on our business. 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 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. There can be no assurance that additional capital or debt financing 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. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to reduce or curtail our operations.

The terms of our promissory notes will restrict our financing flexibility.

The terms of promissory notes we issued in 2020 and 2022 contain standard negative covenants customary for transactions of this type. These negative covenants may preclude or restrict our ability to obtain future debt and convertible debt financings without the prior approval of holders of the previous 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, and failure to timely file Exchange Act filings.

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below expectations of securities analysts and investors, resulting in a decline in our stock price.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as provided in "Management's Discussion and Analysis of Financial Condition and Results of Operations-Critical Accounting Policies and Estimates" in this Annual Report on Form 10-K, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Our operating results may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our operating results to fall below the expectations of securities analysts and investors, resulting in a decline in our stock price. Significant assumptions and estimates used in preparing our consolidated financial statements include those related to revenue recognition, deferred contract costs and commission expense, accounting for business combination, troubled debt restructuring and stock compensation.

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 38% and 6%, and 47% and 9%, of our revenues for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022, and 2021, government contracts, including K-12 education, represented approximately 77% and 72% of our net revenues, respectively. The loss of one of our clients or the loss of a meaningful percentage of government contracts could materially affect our business and operating results.

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.

Legal and Regulatory Risks

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 state and local governments, and their respective agencies, which may terminate most of these contracts at any time, without cause. As discussed above, government contracts constitute a significant portion of our total revenues. At this time, governments and their agencies are operating under increased pressure to reduce spending. 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.

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

We are 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 most other similarly-sized companies that are privately held. As a public company, we expect these rules and regulations to continue to keep our compliance costs high in 2023 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 us 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 our 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 our 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 us and our stockholders.

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, protected health 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, remediation costs, increased insurance costs, 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.

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. 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. 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.

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.

Risks Relating to Our Common Stock

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.

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.

Pursuant to Rule 144 of the Securities Act of 1933, as amended (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 we are a former shell company, shareholders with restricted securities cannot rely upon Rule 144 for sales of restricted securities in the event that we are not current in our filing obligations under the Exchange Act.

An active, liquid and orderly market for our common shares may not be sustained, and you may not be able to sell your common shares.

Our common shares trade on the NYSE American exchange. We cannot assure you that an active trading market for our common shares will be sustained. The lack of an active market may impair your ability to sell the common shares at the time you wish to sell them or at a price that you consider reasonable. An inactive market may also impair our ability to raise capital by selling common shares and may impair our ability to acquire other businesses, applications or technologies using our common shares as consideration, which, in turn, could materially adversely affect our business.

We are subject to the continued listing requirements of the NYSE American. If we are unable to comply with such requirements, our common shares would be delisted from the NYSE American, which would limit investors' ability to effect transactions in our common shares and subject us to additional trading restrictions.

Our common shares are currently listed on the NYSE American. In order to maintain our listing, we must maintain certain share prices, financial and share distribution targets, including maintaining a minimum amount of shareholders' equity and a minimum number of public shareholders. In addition to these objective standards, the NYSE American may delist the securities of any issuer if, in its opinion, the issuer's financial condition and/or operating results appear unsatisfactory; if an issuer fails to comply with the NYSE American's listing requirements; or if any other event occurs or any condition exists which makes continued listing on the NYSE American, in its opinion, inadvisable. If the NYSE American delists our common shares from trading on its exchange and we are not able to list our securities on another national securities exchange, we expect our common shares would qualify to be quoted on an over-the-counter market. If this were to occur, we could face significant material adverse consequences, including: a limited availability of market quotations for our securities; reduced liquidity for our securities; a determination that our common shares are a "penny stock" which will require brokers trading in our common shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our securities; a limited amount of news and analyst coverage; and a decreased ability to issue additional securities or obtain additional financing in the future.

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.

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, 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 and lead to losses by stockholders.

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. 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.

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

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.

General Risks

Global economic conditions and uncertainty are likely to adversely affect our operating results or financing in ways that are hard to predict or to defend against.

Our overall performance depends on economic conditions. The United States' and world economies are currently anticipating a recession, and suffering from uncertainty, inflation, volatility, disruption, and other adverse conditions, primarily caused by disruptions in the global economy from the effects of the war in Ukraine, including global sanctions on Russia, and those conditions will continue to adversely impact the business community and financial markets for some time. Moreover, 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 delay or reduce technology purchases. Contract negotiations are likely to 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. In addition, the current contraction 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, are likely to cause a curtailment in government or corporate spending and 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, 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 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 the current turmoil in domestic or international financial markets, may have a material adverse effect on our business, operating results, and financial condition.

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 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 software developers and experienced salespeople remains critical to our success. Competition for such people is intense, substantial, and continuous, especially in the current environment of labor shortage, 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.

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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

On January 1, 2010, we entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio, used for our corporate headquarters, Document Conversion operations, and a small portion of our Document Management operations. The lease commenced on January 1, 2010 and, pursuant to a lease extension dated September 18, 2021, the lease expires on December 31, 2028. The monthly rental payment is $4,950, with gradually higher annual increases each January up to $5,850 for the final year.

We lease 36,000 square feet of space in Madison Heights, Michigan as the main facility for our Document Conversion operations. 20,000 square feet is used for records storage services, with the remainder of the space used for production, sales, and administration. The monthly rental payment is $43,185, with gradually higher annual increases each September up to $45,828 for the final year, and with a lease term continuing until August 31, 2026.

We also lease a separate 37,000 square foot building in Sterling Heights, Michigan for our Document Conversion operations, with most of the space used for document storage, except approximately 5,000 square feet, which is used for production. The monthly rental payment is $21,072, with gradually higher annual increases each May up to $24,171 for the final year, and with a lease term continuing to April 30, 2028.

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

We also lease and use vehicles for logistics pertaining to our Document Conversion segment, primarily pickup and delivery of client materials, including storage and retrieval operations. The monthly rental payments for these vehicles total $4,809, with lease terms continuing until September 30, 2028.

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

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

We own and operate, for our Document Conversion segment, an extensive collection of the specialized equipment necessary for scanning images, converting microfilm to digital images or microfiche or vice-versa. We also have the ability to provide on-site capture operations for clients needing such services.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are subject to ordinary routine litigation and claims incidental to our business. We are not currently involved in any legal proceedings that we believe to be material.

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

As of September 9, 2022, our common stock trades on the NYSE American under the symbol “INLX.” Prior to such date, our common stock was available for quotation on the OTCQB under the same symbol.

Holders

As of March 23, 2023 we had 147 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

Dividends may be declared and paid out of legally available funds at the discretion of our board of directors (“Board of Directors,” or “Board”). 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. The timing, amount and form of dividends, if any, will depend on, among other things, our results of operations, financial condition, cash requirements and other factors deemed relevant by our Board of Directors. We currently intend to utilize all available funds to develop our business.

Unregistered Securities Issuances in Fiscal Year 2022

There have been no unregistered securities issuances in Fiscal Year 2022 that have not previously been disclosed in Current Reports on 8-K or Forms 10-Q.

Issuer Purchase of Securities

None.

ITEM 6. [RESERVED]

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 for the fiscal years ended December 31, 2022, and 2021 should be read in conjunction with our consolidated financial statements and the notes to those consolidated financial statements that are included elsewhere in this Annual Report on Form 10-K. In this Annual Report, we sometimes refer to the twelve month period ended December 31, 2022 as 2022, and to the twelve month period ended December 31, 2021 as 2021.

We caution you that any forward-looking statements included in this section 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.

Company Overview

We are a document services and software solutions company serving both the small-to-medium business and governmental sectors with their digital transformation and process automation initiatives. On April 1, 2022, we made a significant business acquisition that has significantly impacted our financial operations and grown our business operations. For further information about this acquisition, please see Note 4 to our consolidated financial statements included in Item 8, Part I, Item 1 of this Annual Report.

Our digital transformation products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes the Yellow Folder, LLC ("Yellow Folder") asset acquisition in April 2022, consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as long-term storage and retrieval services. Our solutions create value for customers by making it easy to connect business-critical documents to the people who need them by making those documents easy to find and access, while also being secure and compliant with the customers' audit requirements. Solutions are sold both directly to end-users and through resellers.

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

We operate a U.S.-based business with concentrated sales to the State of Michigan for our Document Conversion segment, complemented by our diverse set of document management software solutions and services. We hold or compete for leading positions regionally in select markets and attribute this leadership to several factors including the strength of our brand name and reputation, our comprehensive offering of innovative solutions, and the quality of our service support. Net growth in sales of software as a service in recent years reflects market demand for these solutions over traditional sales of on-premise software. We expect to continue to benefit from our select niche leadership market positions, innovative product offering, growing customer base, and the impact of our sales and marketing programs. Examples of these programs include identifying and investing in growth and expanded market penetration opportunities, more effective products and services pricing strategies, demonstrating superior value to customers, increasing our sales force effectiveness through improved guidance and measurement, and continuing to optimize our lead generation and lead nurturing processes.

How We Evaluate our Business Performance and Opportunities

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

- With respect to our Document Management segment, including the solutions recently acquired from Yellow Folder, our current strategy is to focus on cloud-based delivery of our software products. Our observation of industry trends leads us to anticipate that cloud-based delivery will continue to be our principal software business and a primary source of revenues for us, and we are seeing our customers migrate to cloud-based services. 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.
- With respect to our Document Conversion segment, our strategy is to maintain and grow our core document conversion, storage, and retrieval business, while simultaneously leveraging our software products and services to provide more attractive total digital transformation solutions for the customers of our Document Conversion segment. Accordingly, when we evaluate our results for Document Conversion, we will assess whether our revenues increase with respect to the segment's services, relative to prior periods, but we will also be assessing whether Document Conversion customers begin to make purchases of other products or services.
- We are focused upon sales of our document services and software solutions through resellers and directly to our customers, with a further focus on select vertical markets. We assess whether our sales resulting from relationships with resellers are increasing, relative to prior periods and relative to direct sales to customers, and whether reseller or direct efforts offer the best opportunities for growth in our targeted vertical markets.
- Our customer engagements often involve tailoring a document conversion program to meet customer requirements or sometimes involve the development and licensing of customer-specific document solutions and related consulting and software maintenance services. When analyzing whether to undertake a particular customer engagement, we often consider the following factors as part of our overall strategy to grow the business: (i) the profit margins the project may yield, and (ii) whether the project would help to develop new product and service features that we could integrate into our suite of products, resulting in an overall product portfolio that better aligns with the needs of our target customers.
- Our software sales cycle averages 1-3 months; however, large projects can be longer, lasting 4-6 months. When a software project begins, we generally perform pre-installation assessment, project scoping, and implementation consulting. On the other hand, our document conversion services often contain a very short sales cycle, but we can have a backlog of work orders not yet processed. Therefore, when we plan our business and evaluate our results, we consider the revenue we expect to recognize from projects in our late-stage software pipeline and in our document conversion services backlog queue.
- We monitor our costs and capital needs to ensure efficiency as well as an adequate level of support for our business plan.
- While we are constantly focused on organic growth, we also continually monitor potential acquisitions of complementary solutions and expertise that are consistent with our core business. We look for acquisitions that can add value for our customers and are expected to be accretive to our financial performance.

Executive Overview of Results

The biggest factor in the changes in our results of operations during 2022 compared to 2021 was our acquisition of Yellow Folder on April 1, 2022. Our results for 2022 include the results of Yellow Folder operations for the three quarters. Our 2021 results do not include Yellow Folder operations. Without Yellow Folder, revenues were up $96,189, or 1%, primarily driven by continued strength in software as a service, which, excluding Yellow Folder, grew 34% year over year for 2022. Our strong software as a service performance was offset by weaknesses in professional services due to staffing issues in the first half of 2022 and softening demand for our storage and retrieval services from a significant customer in the home mortgage lending industry.

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

- Revenues were $14,016,928, representing revenue growth of 22% year over year.
- Cost of revenues was $5,107,770, an increase of 13% year over year.
- Operating expenses (excluding cost of revenues) were $8,081,837, an increase of 35% year over year.
- Income from operations was $827,321, compared to $964,988 for 2021.
- Net income was $24,027 with basic and diluted net income per share of $0.01, compared to net income of $1,357,951 in 2021.
    - 2021 included other income of $845,083 for forgiveness of the PPP loan and interest.
    - 2022 included $355,281 of transaction costs.
    - 2022 included $87,652 of earnout fair value adjustments, compared to $141,414 for 2021.
- Net cash provided by operating activities was $1,988,778, compared to $1,389,966 for 2021.
- Capital expenditures were $577,325, excluding cash paid to acquire the Yellow Folder business, compared to $590,485 for 2021.
- As of December 31, 2022, we had 161 employees, including 25 part-time employees, compared to 114 employees, including 13 part-time employees, as of December 31, 2021.

Financial Impact of Current Economic Conditions

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

Employee wages, our largest expense, have recently increased due to wage inflation. These increased labor costs have slightly decreased our profit margin over 2022, but we continue to mitigate this by appropriately increasing customer renewal rates whenever we have the contractual ability to do so. More significantly, general wage inflation in the market has resulted in a slower hiring process as we grew our staff during 2022, particularly for our Document Conversion segment. These hiring and staffing challenges slow our ability to complete project-based work backlog and reduce our revenue. However, we ended 2022 with more staff than 2021, and have continued to hire more staff as of the date of this report. We anticipate that the inflationary effect on our wages has stabilized.

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

Reportable Segments

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

Results of Operations

Revenues

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

	For the years ended December 31, 2022	2021
Revenues by segment		
Document Management	$ 5,999,726	$ 3,089,669
Document Conversion	8,017,202	8,370,596
Total revenues	$ 14,016,928	$ 11,460,265

	2022	2021
Gross profit by segment		
Document Management	$ 4,978,163	$ 2,542,135
Document Conversion	3,930,995	4,400,847
Total gross profit	$ 8,909,158	$ 6,942,982

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

	For the years ended December 31,	
	2022	**2021**
Revenues:		
Sale of software	$ 159,084	$ 78,450
Software as a service	4,017,409	1,441,683
Software maintenance services	1,387,885	1,350,470
Professional services	7,357,937	7,468,716
Storage and retrieval services	1,094,613	1,120,946
Total revenues	$ 14,016,928	$ 11,460,265

Our total revenues in 2022 increased by $2,556,663, or 22%, over 2021 revenues, driven primarily by the acquisition of Yellow Folder. Yellow Folder added $2,460,474 revenue for 2022. The remaining net increase of 1% in total revenues for 2022 is attributable to strong growth in software as a service, offset by weakness in professional services and storage and retrieval, as further described below.

Sale of Software Revenues

Revenues from the sale of software principally consist of sales of additional or upgraded software licenses and applications to existing customers and resellers. Yellow Folder does not earn revenue in this category. Revenues from the sale of software, which are reported as part of our Document Management segment increased by $80,634, or 103% during 2022 compared to 2021.

These period over period changes are due to timing of direct sales projects compared to the same periods in 2021. We expect the volatility of this revenue line item to continue as the frequency of on-premise software solution sales decreases over time and project timing is unpredictable.

Software as a Service Revenues

We provide access to our software solutions as a service, accessible through the internet. Our customers typically enter into our software as a service agreement for periods of one year or more. Under these agreements, we generally provide access to the applicable software, data storage and related customer assistance and support. Revenues from the sale of software as a service, which are reported as part of our Document Management segment increased by $2,575,726, or 179% in 2022 compared to 2021. This increase was primarily the result of the Yellow Folder acquisition, which contributed $2,091,083, or 81% of the increase, augmenting the underlying new cloud-based solution sales, as well as expanded data storage, user seats, and hosting fees for existing customers. Excluding Yellow Folder, software as a service revenues grew 34% in 2022 compared to 2021.

Software Maintenance Services Revenues

Software maintenance services revenues consist of fees for post-contract customer support services provided to license (premise-based) holders through support and maintenance agreements. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. A substantial portion of these revenues were generated from renewals of maintenance agreements, which typically run on a year-to-year basis. Yellow Folder does not earn revenue in this category. Revenues from the sale of software maintenance services, which are reported as part of our Document Management segment, increased by $37,415, or 3%, in 2022 compared to 2021. This small increase in these revenues in 2022 compared to the 2021 was driven by expansion of services with existing customers and price increases being partially offset by normal attrition and certain customers migrating their premise solution to our cloud solution, resulting software maintenance service revenues decreasing and software as a service revenues increasing.

Professional Services Revenues

Professional services revenues consist of revenues from document scanning and conversion services, consulting, discovery, training, and advisory services to assist customers with document management needs, as well as repair and maintenance services for customer equipment. These revenues include arrangements that do not involve the sale of software. Of our professional services revenues during 2022, $7,082,011 was derived from our Document Conversion operations and $275,926 was derived from our Document Management operations. Our overall professional services revenues decreased by $110,779, or 1%, in 2022 compared to 2021. This decrease is primarily the result of COVID Omicron impacts to customers and staff in our Document Conversion segment in the first quarter 2022, and our challenges in hiring staff to fulfill a large backlog of project work during the following quarters of 2022. The decrease was partially offset by the contribution of $262,461 revenue from Yellow Folder for 2022.

Storage and Retrieval Services Revenues

We provide document storage and retrieval services to customers, primarily in Michigan. Revenues from storage and retrieval services, which are reported as part of our Document Conversion segment, decreased by $26,333, or 2%, during 2022 compared to 2021. This decrease was the result of a significant reduction in volume of work from our largest storage and retrieval customer, Rocket Mortgage, due to the significant slowdown in the home mortgage and refinancing industry. In addition, the decrease was also due to unusually high project work in 2021 including shredding of documents approved for destruction. Revenue contributed from the Yellow Folder acquisition partially offset the decrease by $106,930.

Costs of Revenues and Gross Profits

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

	For the years ended December 31, 2022	2021
Cost of revenues by segment		
Document Management	$ 1,021,563	$ 547,534
Document Conversion	4,086,207	3,969,749
Total cost of revenues	$ 5,107,770	$ 4,517,283

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

	For the years ended December 31, 2022	2021
Cost of revenues:		
Sale of software	$ 64,577	$ 14,828
Software as a service	701,433	333,001
Software maintenance services	79,738	81,641
Professional services	3,908,205	3,709,348
Storage and retrieval services	353,817	378,465
Total cost of revenues	$ 5,107,770	$ 4,517,283

Our total cost of revenues during 2022 increased by $590,487 or 13%, over 2021. Our cost of revenues for our Document Management segment increased by $474,029, or 87%, primarily due to the impact of Yellow Folder in that segment. Our cost of revenues for our Document Conversion segment increased by $116,458, or 3%, in 2022 compared to 2021 primarily due an unfavorable project mix, requiring more labor to complete projects.

	For the years ended December 31, 2022	2021
Gross profit:		
Sale of software	$ 94,507	$ 63,622
Software as a service	3,315,976	1,108,682
Software maintenance services	1,308,147	1,268,829
Professional services	3,449,732	3,759,368
Storage and retrieval services	740,796	742,481
Total gross profit	$ 8,909,158	$ 6,942,982
Gross profit percentage:		
Sale of software	59.4 %	81.1 %
Software as a service	82.5 %	76.9 %
Software maintenance services	94.3 %	94.0 %

Professional services	46.9 %	50.3 %
Storage and retrieval services	67.7 %	66.2 %
Total gross profit percentage	63.6 %	60.6 %

Our overall gross profit increased to 64% in 2022 from 61% in 2021. The increase in the mix of software as a service revenue was the principal driver of the increase, due to the addition of Yellow Folder and overall strong margins in the Document Management segment, partially offset by margin erosion in the Document Conversion segment, driven by lower-margin project work relative to 2021.

Cost of Software Revenues

Cost of software revenues consists primarily of labor costs of our software engineers and implementation consultants and third-party software licenses that are sold in connection with our core software applications. During 2022, cost of software revenues increased by $49,749, or 336%, from 2021, increasing more than revenues with more complex solutions sold in 2022. Our gross margin for software revenues decreased to 59% from 81% in 2021. The 2021 margins were unusually strong, driven by license expansions and similar solutions that required fewer costs to deliver the solution. Yellow Folder had no impact to this category.

Cost of Software as a Service

Cost of software as a service, or SaaS, consists primarily of technical support personnel, hosting services, and related costs. Cost of software as a service increased by $368,432, or 111%, during 2022 over 2021. This increase in the cost of SaaS was less than the increase in associated SaaS revenues, so our gross margin in 2022 increased to 83% compared to 77% in 2021, as a result of strong margins with and without Yellow Folder, which contributed 85% gross margin.

Cost of Software Maintenance Services

Cost of software maintenance services consists primarily of technical support personnel and related costs. Cost of software maintenance services decreased by $1,903, or 2%, in 2022 from 2021, due to stable support activity. As a result, our gross margin for software maintenance services remained at 94% in 2022 and 2021.

Cost of Professional Services

Cost of professional services consists primarily of compensation for employees performing the document conversion services, compensation of our software engineers and implementation consultants and related third-party costs. Cost of professional services increased in 2022 by $198,857, or 5%, over 2021, primarily due to an unfavorable mix of lower-margin projects combined with the staffing challenges in our Document Conversion segment, driven by inflationary pressures. As a result, our gross margin for professional services decreased to 47% during 2022 compared to 50% in 2021. Gross margins related to consulting services may vary widely, depending upon the nature of the consulting project and the amount of labor required to complete a project. Yellow Folder partially offset the overall margin erosion with $87,679 costs in 2022 at 67% margin.

Cost of Storage and Retrieval Services

Cost of storage and retrieval services consists primarily of compensation for employees performing the document storage and retrieval services, including logistics, provided primarily by our Michigan operations and to a much lesser extent, Yellow Folder. Cost of storage and retrieval services decreased by $24,648, or 7%, during 2022 compared to 2021. The decrease was due to additional labor costs in 2021 associated with our 2021 warehouse consolidation, partially offset by general wage inflation, as well as costs decreasing in proportion to revenue project volume. Gross margins for our storage and retrieval services, which exclude the cost of facilities rental, maintenance, and related overheads, increased to 68% during 2022 compared to 66% in 2021. Yellow Folder did not have a material impact, contributing costs of $29,187, or 8% of the cost in 2022, at a gross margin of 73%.

Operating Expenses

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

	For the years ended December 31, 2022	2021
Operating expenses:		
General and administrative	$ 4,945,214	$ 4,044,296
Change in fair value of earnout liabilities	87,652	141,414
Transaction costs	355,281	-
Sales and marketing	1,971,493	1,378,352
Depreciation and amortization	722,197	413,932
Total operating expenses	$ 8,081,837	$ 5,977,994

General and Administrative Expenses

General and administrative expenses increased in 2022 by $900,918, or 22%, over 2021, principally related to the addition of Yellow Folder expenses in 2022. This was primarily reflected in our Document Management segment, in which our general and administrative expenses increased to $2,512,879 in 2022 from $1,610,017 in 2021. In our Document Conversion segment, our general and administrative expenses were roughly flat at $2,432,335 in 2022 compared to $2,434,279 in 2021.

Change in Fair Value of Earnout Liabilities

Fair value adjustments amounted to $87,652 for 2022. The fair value adjustments were driven by updated assumptions to reflect the improved performance of both acquisitions against their threshold targets and the decreasing impact of present value discounting. For 2021, improvements in actual and forecast gross margin and revenue performance drove adjustments in fair value for both the Graphic Sciences and the CEO Image earnout liabilities, totaling $141,414.

Transaction Costs

The transactions costs during 2022 were comprised of investment banker success fees, as well as legal and consulting fees, in connection with our acquisition of Yellow Folder and related fundraising activities. There were no transaction costs during 2021.

Sales and Marketing Expenses

Sales and marketing expenses increased by $593,141, or 43%, during 2022 over 2021. This increase was primarily driven by the inclusion of the sales and marketing expenses from Yellow Folder beginning the second quarter 2022, as well as adding two sales representatives.

Depreciation and Amortization

Depreciation and amortization during 2022 increased by $252,517, or 61%, over 2021 as a result of amortization of new intangible assets related to the Yellow Folder acquisition. The incremental amortization amounted to $220,375 in 2022, or 87% of the increase.

Other Items of Income and Expense

Gain on Extinguishment of Debt

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

Interest Expense

Interest expense was $803,294 during 2022 as compared with $452,120 during 2021, representing an increase of $351,174 or 78%. The increase resulted from incremental interest expense on increased net debt following the April 1, 2022 private placement of securities, slightly offset by reduced interest resulting from partial principal repayment of the 2020 Notes on December 1, 2022.

Liquidity and Capital Resources

We have financed our operations primarily through a combination of cash on hand, cash generated from operations, borrowings from third parties and related parties, and proceeds from private sales of equity. Since 2012, and including our private offering in April 2022, we have raised a total of approximately $26.5 million in cash through issuances of debt and equity securities. As of December 31, 2022, we had approximately $2.7 million in cash and cash equivalents, net working capital deficit of $1.1 million, and an accumulated deficit of $21.6 million. In June 2022, we paid approximately $1.0 million in earnout liabilities and in December 2022 we prepaid approximately $1.0 million in principal, which was due in February 2023.

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

- acquiring the positive cash flow generated by Yellow Folder,
- receiving aggregate gross proceeds of approximately $5.7 million from the private placement of our common stock (all which was used to acquire Yellow Folder), and
- receiving approximately $3.0 million in proceeds from the issuance of 12% subordinated promissory notes due March 30, 2025, which we refer to as the 2022 Notes (some of which was used to acquire Yellow Folder, with the remainder used for general working capital).

Of our existing debt as of December 31, 2022, approximately $0.3 million was due and paid on February 28, 2023, $0.7 million is due August 31, 2023, and approximately $3 million is due March 30, 2025. We also paid final earnout payments for our Graphic Sciences acquisition of $700,000 subsequent to the balance sheet date, on January 3, 2023. Our operating cash flow alone may be insufficient to meet the debt obligations in full in 2023. We have positive operating cash flow, and we believe we could seek additional debt or equity financing on acceptable terms. We believe that our balance sheet and financial statements would support a full or partial refinancing or other appropriate modification of the current promissory notes, such as an extension or conversion to equity. We are confident in our ability to prudently manage our current debt on terms acceptable to us.

Our ability to meet our capital needs in the short term will depend on many factors, including maintaining and enhancing our operating cash flow, successfully managing the transition of our recent acquisition of Yellow Folder, successfully retaining and growing our client base in the midst of global inflation and general economic uncertainty, and managing any continuing effects of the COVID-19 pandemic on our business.

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

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

Indebtedness

As of December 31, 2022, our outstanding long-term indebtedness consisted of:

- The 2020 Notes issued to accredited investors on March 2, 2020, with an aggregate outstanding principal balance of $980,450 and accrued interest of $0 (of which $262,950 in principal has been paid as of the date of this report).
- The 2022 Notes issued to accredited investors on April 1, 2022, with an aggregate outstanding principal balance of $2,964,500 and accrued interest of $0.

Capital Expenditures

There were no material commitments for capital expenditures at December 31, 2022.

Cash Provided by Operating Activities.

From our inception, we have generated revenues from the sales, implementation, subscriptions, and maintenance of our internally generated software applications, as well as significantly increased revenues from document conversion services beginning in 2020. Our uses of cash from operating activities include compensation and related costs, hardware costs, rent for our corporate offices and warehouses, hosting fees for our cloud-based software services, other general corporate expenditures, and travel costs to client sites.

The majority of our software as a service revenues and our maintenance support services revenues are annual contracts which are generally invoiced and collected at the beginning of each renewal period. Of these annual renewals, we experience seasonality favoring the third quarter each year, due to governmental entity preferences for a July to June annual period. Accordingly, our cash collections are largest in the third quarter, and our deferred revenues are generally correspondingly at their highest during that period as well.

Net cash provided by operating activities during 2022 was $1,988,778, primarily attributable to the net income adjusted for non-cash expenses of $2,264,811, an increase in operating assets of $243,527 and a decrease in operating liabilities of $56,533. Net cash provided by operating activities during 2021 was $1,389,966, primarily attributable to net income adjusted for non-cash expenses of $703,883, an increase in operating assets of $393,404 and a decrease in operating liabilities of $278,464.

Cash Used in Investing Activities.

Net cash used in investing activities in 2022 was $6,960,594, primarily $6,383,269 in cash paid to acquire Yellow Folder, as well as $376,345 in capitalized internal use software. Net cash used in investing activities in 2021 was $590,485, primarily related to purchases of racking property and equipment for the new Sterling Heights, MI warehouse.

Cash Provided and Used in Financing Activities.

Net cash provided by financing activities during 2022 amounted to $5,915,667, as the result of cash generated from the sale of common stock of $5,740,758 and from new borrowings of $2,964,500, partially offset by issuance costs of $746,342, as well as a further offset of $1,018,333 in earnout liability payments and $1,019,550 in repayment of notes payable and $5,366 in the principal portion of a finance lease liability. Net cash used by financing activities during 2021 amounted to $954,733 in earnout liability payments.

Critical Accounting Policies and Estimates

These critical accounting policies and estimates by our management should be read in conjunction with Note 3 *Summary of Significant Accounting Policies* to the Consolidated Financial Statements.

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

We consider the following accounting policies and estimates to be both those most important to the portrayal of our financial condition and those that require the most subjective judgment:

- Revenue Recognition
- Business Acquisition, Goodwill and Intangibles, including Contingent Liability—Earnout
- Accounts Receivable, Unbilled
- Deferred Revenues
- Accounting for Costs of Computer Software to be Sold, Leased or Marketed and Accounting for Internal Use Software
- Accounting Stock-Based Compensation

Revenue Recognition

In accordance with ASC 606, “Revenue From Contracts With Customers,” we follow a five-step model to assess each contract of a sale or service to a customer: identify the legally binding contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and determine whether revenue will be recognized at a point in time or over time. Revenue is recognized when a performance obligation is satisfied and the customer obtains control of promised goods and services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods and services. In addition, ASC 606 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

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

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

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

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

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

Business Acquisition, Goodwill and Intangibles Assets, including Contingent Liability—Earnout

We have allocated the purchase price to assets acquired and liabilities assumed based on the estimated fair value of such assets and liabilities at the date of acquisition. We estimate a fair value of any earnout which would be owed to the seller based on the terms of the earnout and record this liability at the acquisition date. Fair value was based on future projections of metrics such as revenue or profit over the earnout period and valuation techniques that utilize expected volatility, threshold probability, and discounting of future payments. Evaluating the fair value involves a high degree of assumptions used within the valuation models, in particular, forecasts of projected revenues or margins. Changes in these assumptions could have a significant impact on the fair value of the earnout liabilities.

The carrying value of goodwill is not amortized, but it tested for impairment annually as of December 31, as well as on an interim basis whenever events or changes in circumstances indicate that the carrying amount of a reporting unit may not be recoverable. An impairment charge is recognized for the amount by which the carrying amount exceeds the recorded fair value. All intangible assets have finite lives and are stated at cost, net of amortization. Amortization is computed over the useful life of the related assets on a straight-line method.

As of December 31, 2022 and 2021, we recorded a change in fair value of earnout liabilities for both Graphic Sciences and CEO Image. The assumptions were updated to reflect the improved performance of both acquisitions against their threshold targets, a reduction of pandemic-related uncertainty, and the decreasing impact of time value of money. In December 2022, an amendment to the Graphic Sciences stock purchase agreement was signed, which accelerated the timing of the final Graphic Sciences earnout payment and set the amount at $700,000. This amount was paid subsequent to the balance sheet date, on January 3, 2023.

Accounts Receivable, Unbilled

We recognize professional services revenue over time as the services are delivered using an input or output method (e.g., labor hours incurred as a percentage of total labor hours budgeted, images scanned, or similar milestones), as appropriate for the contract, provided all other revenue recognition criteria are met. When our revenue recognition policies recognize revenue that has not yet been billed, we record those contract asset amounts in accounts receivable, unbilled.

Deferred Revenues

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

Accounting for Costs of Computer Software to be Sold, Leased or Marketed and Accounting for Internal Use Software

We design, develop, test, market, license, and support new software products and enhancements of current products. We continuously monitor our software products and enhancements to remain compatible with standard platforms and file formats. In accordance with ASC 985-20 “Costs of Software to be Sold, Leased or Otherwise Marketed,” we expense software development costs, including costs to develop software products or the software component of products to be sold, leased, or marketed to external users, before technological feasibility is reached. Once technological feasibility has been established, certain software development costs incurred during the application development stage are eligible for capitalization. Based on our software development process, technical feasibility is established upon completion of a working model. Technological feasibility is typically reached shortly before the release of such products. Such costs in the amount of $43,771 were capitalized during the 2022. No such costs were capitalized during 2021.

In accordance with ASC 350-40, “Internal-Use Software,” we capitalize purchase and implementation costs of internal use software. Once an application has reached development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable that the expenditure will result in additional functionality. Such costs in the amount of $376,345 were capitalized during 2022. Such costs in the amount of $38,305 were capitalized during 2021.

Capitalized costs are stated at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the related assets on a straight-line basis, which is three years.

Stock-Based Compensation

We maintain one stock-based compensation plan. We account for stock-based payments to employees in accordance with ASC 718, "Compensation - Stock Compensation." Stock-based payments to employees include grants of stock that are recognized in the consolidated statement of operations based on their fair values at the date of grant. We account for stock-based payments to non-employees in accordance with ASC 718, "Compensation - Stock Compensation," which requires that such equity instruments are recorded at their fair value on the grant date.

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

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

Not applicable to smaller reporting companies.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

(1) Consolidated Financial Statements.

(2) Consolidated Financial Statement Schedules.

Consolidated 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 consolidated financial statements or the notes thereto included in this report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Intellinetics, Inc. and Subsidiaries
Columbus, Ohio

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Intellinetics, Inc. and Subsidiaries (the "Company") as of December 31, 2022 and 2021, the related consolidated statements of operations, stockholders' equity, and cash flows for the years then ended, and related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's 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.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Evaluation of the Fair Value of Intangibles and Goodwill Related to Business Acquisitions

Description of the Matter

As discussed in Note 4 to the consolidated financial statements, the Company completed the acquisition of Yellow Folder LLC. (Yellow Folder) on April 1, 2022, for a purchase price of $6,383,269. We identified the evaluation of the acquisition date fair values of intangible assets acquired and goodwill as a critical audit matter.

Auditing the valuation of the acquired intangible assets was complex and required significant auditor judgment due to the high degree of subjectivity in evaluating certain assumptions required to estimate the fair values. In particular, the fair value measurement of customer relationships was sensitive to management's forecasts of revenue growth rates, gross margin, earnings before interest, taxes, depreciation and amortization (EBITDA) margin, and the discount rate used to estimate the discounted cash flows. The fair value measurement of the proprietary technology and trade name assets were sensitive to management's forecasts of revenue growth rates, royalty rates and the discount rate used to estimate the discounted cash flows.

How We Addressed the Matter in Our Audit

To test the fair value estimates of the customer relationship, proprietary technology and trade name intangible assets, we performed audit procedures which included, among others, evaluating the prospective financial information used in the valuation models, testing the completeness and accuracy of the underlying data and evaluating the Company's use of valuation methodologies. Our procedures to assess the prospective financial information used in the valuation models, included evaluating the key assumptions discussed above, by comparing them to historical results of the acquired business. We involved our valuation specialists to assist in our evaluation of the reasonableness of the significant assumptions used in the fair value estimates as well as to independently calculate fair value estimates for the acquired intangible assets. Lastly, we evaluated the appropriateness of the Company's related disclosures.

/s/ GBQ Partners LLC

We have served as the Company's auditor since 2012.

Columbus, Ohio

March 27, 2023

Part I Financial Information

Item 1. Financial Statements

INTELLINETICS, INC. and SUBSIDIARIES

Consolidated Balance Sheets

	December 31, 2022	December 31, 2021
ASSETS		
Current assets:		
Cash	$ 2,696,481	$ 1,752,630
Accounts receivable, net	1,121,083	1,176,059
Accounts receivable, unbilled	596,410	444,782
Parts and supplies, net	73,221	76,691
Contract assets	80,378	78,556
Prepaid expenses and other current assets	325,466	155,550
Total current assets	4,893,039	3,684,268
Property and equipment, net	1,068,706	1,091,780
Right of use assets, operating	3,200,191	3,841,612
Right of use asset, finance	154,282	-
Intangible assets, net	4,419,646	968,496
Goodwill	5,789,821	2,322,887
Other assets	417,457	53,089
Total assets	$ 19,943,142	$ 11,962,132
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 370,300	$ 181,521
Accrued compensation	411,683	343,576
Accrued expenses	114,902	161,862
Lease liabilities, operating - current	692,074	616,070
Lease liability, finance - current	22,493	-
Deferred revenues	2,754,064	1,194,649
Deferred compensation	-	100,828
Earnout liabilities - current	700,000	958,818
Notes payable - current	936,966	-
Total current liabilities	6,002,482	3,557,324
Long-term liabilities:		
Notes payable - net of current portion	2,085,035	1,754,527
Notes payable - related party	529,084	-
Lease liabilities, operating - net of current portion	2,624,608	3,316,682
Lease liability, finance - net of current portion	133,131	-
Earnout liabilities - net of current portion	-	671,863
Total long-term liabilities	5,371,858	5,743,072
Total liabilities	11,374,340	9,300,396

Stockholders' equity:		
Common stock, $0.001 par value, 25,000,000 shares authorized; 4,073,757 and 2,823,072 shares issued and outstanding at December 31, 2022 and 2021, respectively	4,074	2,823
Additional paid-in capital	30,179,017	24,297,229
Accumulated deficit	(21,614,289)	(21,638,316)
Total stockholders' equity	8,568,802	2,661,736
Total liabilities and stockholders' equity	$ 19,943,142	$ 11,962,132

See Notes to these consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Consolidated Statements of Operations

	For the Twelve Months Ended December 31, 2022	2021
Revenues:		
Sale of software	$ 159,084	$ 78,450
Software as a service	4,017,409	1,441,683
Software maintenance services	1,387,885	1,350,470
Professional services	7,357,937	7,468,716
Storage and retrieval services	1,094,613	1,120,946
Total revenues	14,016,928	11,460,265
Cost of revenues:		
Sale of software	64,577	14,828
Software as a service	701,433	333,001
Software maintenance services	79,738	81,641
Professional services	3,908,205	3,709,348
Storage and retrieval services	353,817	378,465
Total cost of revenues	5,107,770	4,517,283
Gross profit	8,909,158	6,942,982
Operating expenses:		
General and administrative	4,945,214	4,044,296
Change in fair value of earnout liabilities	87,652	141,414
Transaction costs	355,281	-
Sales and marketing	1,971,493	1,378,352
Depreciation and amortization	722,197	413,932
Total operating expenses	8,081,837	5,977,994
Income from operations	827,321	964,988
Other (expense) income		
Gain on extinguishment of debt	-	845,083
Interest expense	(803,294)	(452,120)
Total other (expense) income, net	(803,294)	392,963
Income before income taxes	24,027	1,357,951
Net income	$ 24,027	$ 1,357,951

Basic net income per share:	$	0.01	$	0.48
Diluted net income per share:	$	0.01	$	0.44
Weighted average number of common shares outstanding - basic		3,767,299		2,822,972
Weighted average number of common shares outstanding - diluted		4,295,817		3,104,820

See Notes to these consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Consolidated Statement of Stockholders' Equity
For the Twelve Months Ended December 31, 2022 and 2021

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2020	2,810,865	$ 2,811	$ 24,147,488	$ (22,996,267)	$ 1,154,032
Stock Issued to Directors	12,207	12	57,488	-	57,500
Stock Option Compensation	-	-	92,253	-	92,253
Net Income	-	-	-	1,357,951	1,357,951
Balance, December 31, 2021	2,823,072	$ 2,823	$ 24,297,229	$ (21,638,316)	$ 2,661,736
Balance, December 31, 2021	2,823,072	$ 2,823	$ 24,297,229	$ (21,638,316)	$ 2,661,736
Stock Issued to Directors	8,097	8	57,492	-	57,500
Stock Option Compensation	-	-	363,950	-	363,950
Stock Issued	1,242,588	1,243	5,739,515	-	5,740,758
Equity Issuance Costs	-	-	(492,182)	-	(492,182)
Warrants Issued and Extended	-	-	213,013	-	213,013
Net Income	-	-	-	24,027	24,027
Balance, December 31, 2022	4,073,757	$ 4,074	$ 30,179,017	$ (21,614,289)	$ 8,568,802

See Notes to these consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Consolidated Statements of Cash Flows

	For the Twelve Months Ended December 31,	
	2022	2021
Cash flows from operating activities:		
Net income	$ 24,027	$ 1,357,951
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	722,197	413,932
Bad debt expense (recovery)	42,129	(11,187)
Loss on disposal of fixed assets	24,473	-
Parts and supplies reserve change	-	9,000
Amortization of deferred financing costs	216,381	103,739
Amortization of debt discount	102,400	106,666
Right of use asset, operating	641,421	635,649
Amortization of right of use asset, finance	6,708	-
Stock issued for services	57,500	57,500
Stock option compensation	363,950	92,253
Gain on extinguishment of debt	-	(845,083)
Change in fair value of earnout liabilities	87,652	141,414
Changes in operating assets and liabilities:		
Accounts receivable	81,227	(372,492)
Accounts receivable, unbilled	(151,628)	78,740
Parts and supplies	3,470	(5,907)
Prepaid expenses and other current assets	(176,596)	(93,745)
Accounts payable and accrued expenses	173,480	141,562
Lease liabilities, operating, current and long-term	(616,070)	(618,986)
Deferred compensation	(100,828)	-
Accrued interest, current and long-term	-	442
Deferred revenues	486,885	198,518
Total adjustments	1,964,751	32,015
Net cash provided by operating activities	1,988,778	1,389,966
Cash flows from investing activities:		
Cash paid to acquire business	(6,383,269)	-
Capitalization of internal use software	(376,345)	(38,305)
Purchases of property and equipment	(200,980)	(552,180)
Net cash used in investing activities	(6,960,594)	(590,485)
Cash flows from financing activities:		
Payment of earnout liabilities	(1,018,333)	(954,733)
Proceeds from issuance of common stock	5,740,758	-
Offering costs paid on issuance of common stock and notes	(746,342)	-
Proceeds from notes payable	2,364,500	-
Proceeds from notes payable - related parties	600,000	-

Principal portion of finance lease liability	(5,366)	-
Repayment of notes payable	(1,019,550)	-
Net cash provided by (used in) financing activities	5,915,667	(954,733)
Net increase (decrease) in cash	943,851	(155,252)
Cash - beginning of period	1,752,630	1,907,882
Cash - end of period	$ 2,696,481	$ 1,752,630
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 496,805	$ 242,545
Cash paid during the period for income taxes	$ 12,888	$ 4,595
Supplemental disclosure of non-cash financing activities:		
Discount on notes payable for warrants	$ 169,900	$ -
Discount on notes payable - related parties for warrants	43,113	-
Right-of-use asset obtained in exchange for operating lease liability	-	1,836,256
Right-of-use asset obtained in exchange for finance lease liability	160,990	-
Supplemental disclosure of non-cash investing activities relating to business acquisitions:		
Accounts receivable	$ 68,380	$ -
Prepaid expenses	38,913	-
Property and equipment	30,018	-
Intangible assets	3,888,000	-
Goodwill	3,466,934	-
Accounts payable	(36,446)	-
Deferred revenues	(1,072,530)	-
Net assets acquired in acquisition	6,383,269	-
Cash used in business acquisition	$ 6,383,269	$ -

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

Our digital transformation products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes the Yellow Folder, LLC ("Yellow Folder") asset acquisition in April 2022 and the CEO Imaging Systems, Inc. ("CEO Image") asset acquisition in April 2020, consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment, which includes and primarily consists of the Graphic Sciences acquisition, provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as long-term storage and retrieval services. Our solutions create value for customers by making it easy to connect business-critical documents to the people who need them by making those documents easy to find and access, while also being secure and compliant with the customers' audit requirements. Solutions are sold both directly to end-users and through resellers.

2. Basis of Presentation

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

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses. By their nature, these estimates and assumptions are subject to an inherent degree of uncertainty. The impact of inflation, as well as COVID-19, has significantly increased economic and demand uncertainty. Because future events and their effects cannot be determined with precision, actual results could differ significantly from estimated amounts.

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

Revenue Recognition

In accordance with ASC 606, "Revenue From Contracts With Customers," we follow a five-step model to assess each contract of a sale or service to a customer: identify the legally binding contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and determine whether revenue will be recognized at a point in time or over time. Revenue is recognized when a performance obligation is satisfied and the customer obtains control of promised goods and services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods and services. In addition, ASC 606 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

We categorize revenue as software, software as a service, software maintenance services, professional services, and storage and retrieval services. We earn the majority of our revenue from the sale of professional services, followed by the sale of software maintenance services and software as a service. We apply our revenue recognition policies as required in accordance with ASC 606 based on the facts and circumstances of each category of revenue.

a) Sale of software

Revenues included in this classification typically include sales of licenses with professional services to new customers, additional software licenses to existing customers, and sales of software with or without services to our resellers (See section j) - Reseller Agreements, below. Our software licenses are functional intellectual property and typically provide customers with the right to use our software in perpetuity as it exists when made available to the customer. We recognize revenue from software licenses at a point in time upon delivery, provided all other revenue recognition criteria are met.

b) Sale of software as a service

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

c) Sale of software maintenance services

Software maintenance services revenues consist of revenues derived from arrangements that provide post-contract support ("PCS"), including software support and bug fixes, to our software license holders. Advance billings of PCS are not recorded to the extent that the term of the PCS has not commenced and payment has not been received. PCS are considered distinct services. However, these distinct services are considered a single performance obligation consisting of a series of services that are substantially the same and have the same pattern of transfer to the customer. These revenues are recognized over the term of the maintenance contract.

d) Sale of professional services

Professional services revenues consist of revenues from document scanning and conversion services, consulting, discovery, training, and advisory services to assist customers with document management needs, as well as repair and maintenance services for customer equipment. We recognize professional services revenue over time as the services are delivered using an input or output method (e.g., labor hours incurred as a percentage of total labor hours budgeted, images scanned, or similar milestones), as appropriate for the contract, provided all other revenue recognition criteria are met.

e) Sale of storage and retrieval services

Sale of document storage and retrieval services consist principally of secured warehouse storage of customer documents, which are typically retained for many years, as well as retrieval per agreement terms and certified destruction if desired. We recognize revenue from document storage and retrieval services over the term of the contract for storage and for the retrieval and destructions components, as the services are delivered. Customers are generally billed monthly based upon contractually agreed-upon terms.

f) Arrangements with multiple performance obligations

In addition to selling software licenses, software as a service, software maintenance services, professional services, and storage and retrieval services on a stand-alone basis, a portion of our contracts include multiple performance obligations. For contracts with multiple performance obligations, we allocate the transaction price of the contract to each distinct performance obligation, on a relative basis using its standalone selling price. We determine the standalone selling price based on the price charged for the deliverable when sold separately.

g) Contract balances

When the timing of our delivery of goods or services is different from the timing of payments made by customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Customers that prepay are represented by deferred revenue until the performance obligation is satisfied. Contract assets represent arrangements in which the good or service has been delivered but payment is not yet due. Our contract assets consisted of accounts receivable, unbilled, which are disclosed on the consolidated balance sheets, as well as contract assets which are comprised of employee sales commissions paid in advance of contract periods ending. Our contract liabilities consisted of deferred (unearned) revenue, which is generally related to software as a service or software maintenance contracts. We classify deferred revenue as current based on the timing of when we expect to recognize revenue, which are disclosed on the consolidated balance sheets.

The following tables present changes in our accounts receivable and contract assets during the years ended December 31, 2022, and 2021:

	Balance at Beginning of Period	Addition from acquisition (Note 5)	Billings	Payments Received	Balance at End of Period
Year ended December 31, 2022					
Accounts receivable	$ 1,176,059	$ 68,380	$ 14,422,286	$ (14,545,641)	$ 1,121,083
Year ended December 31, 2021					
Accounts receivable	$ 792,380	$ -	$ 11,871,874	$ (11,488,195)	$ 1,176,059

	Balance at Beginning of Period	Revenue Recognized in Advance of Billings	Billings	Balance at End of Period
Year ended December 31, 2022				
Accounts receivable, unbilled	$ 444,782	$ 3,776,612	$ (3,624,984)	$ 596,410
Year ended December 31, 2021				
Accounts receivable, unbilled	$ 523,522	$ 4,213,550	$ (4,292,290)	$ 444,782

	Balance at Beginning of Period	Commissions Paid	Commissions Recognized	Balance at End of Period
Year ended December 31, 2022				
Contract assets	$ 78,556	$ 120,966	$ (119,144)	$ 80,378
Year ended December 31, 2021				
Contract assets	$ 31,283	$ 88,168	$ (40,895)	$ 78,556

h) Deferred revenue

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

Remaining performance obligations represent the transaction price from contracts for which work has not been performed or goods and services have not been delivered. We expect to recognize revenue on approximately 97% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of December 31, 2022, the aggregate amount of the transaction price allocated to remaining performance obligations for software as a service and software maintenance contracts with a duration greater than one year was $74,448. As of December 31, 2021, the aggregate amount of the transaction price allocated to remaining performance obligations for software as a service and software maintenance contracts with a duration greater than one year was $16,835. This does not include revenue related to performance obligations that are part of a contract whose original expected duration is one year or less.

The following table presents changes in our contract liabilities during the years ended December 31, 2022 and 2021:

	Balance at Beginning of Period	Addition from acquisition (Note 4)	Billings	Recognized Revenue	Balance at End of Period
Year ended December 31, 2022					
Contract liabilities: Deferred revenue	$ 1,194,649	$ 860,456	$ 7,107,625	$ (6,408,666)	$ 2,754,064
Year ended December 31, 2021					
Contract liabilities: Deferred revenue	$ 996,131	$ -	$ 3,700,828	$ (3,502,310)	$ 1,194,649

i) Rights of return and customer acceptance

We do not generally offer variable consideration, financing components, rights of return or any other incentives such as concessions, product rotation, or price protection and, therefore, does not provide for or make estimates of rights of return and similar incentives. Our contracts with customers generally do not include customer acceptance clauses.

j) Reseller agreements

We execute certain sales contracts through resellers. We recognize revenues relating to sales through resellers when all the recognition criteria have been met including passing of control. In addition, we assess the credit-worthiness of each reseller, and if the reseller is undercapitalized or in financial difficulty, any revenues expected to emanate from such resellers are deferred and recognized only when cash is received and all other revenue recognition criteria are met.

k) Contract costs

We capitalize the incremental costs of obtaining a contract with a customer. We have determined that certain sales commissions meet the requirement to be capitalized, and we amortize these costs on a consistent basis with the pattern of transfer of the goods and services in the contract. Total capitalized costs to obtain contracts are included in contract assets on our consolidated balance sheets.

l) Sales taxes

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

m) Disaggregation of revenue

We provide disaggregation of revenue based on product groupings in our consolidated statements of operations as we believe this best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Revenues from contracts are primarily within the United States. International revenues were not material to the consolidated financial statements for the years ended December 31, 2022 and 2021.

n) Significant financing component

Our customers typically do not pay in advance for goods or services to be transferred in excess of one year. As such, it is not necessary to determine if we benefit from the time value of money and should record a component of interest income related to the upfront payment due to the practical expedient of ASC 606-10-32-18.

Concentrations of Credit Risk

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

The number of customers that comprise our customer base, along with the different industries, governmental entities and geographic regions, in which our customers operate, limits concentrations of credit risk with respect to accounts receivable, with the exception of the State of Michigan. In the years ended December 31, 2022 and 2021, our sales to the State of Michigan totaled approximately 38% and 47% of revenues, respectively. We have not experienced any losses resulting from nonpayment by the State of Michigan.

We do not generally require collateral or other security to support customer receivables; however, we may require customers to provide retainers, up-front deposits or irrevocable letters-of-credit when considered necessary to mitigate credit risks. We have established an allowance for 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, 2022 and 2021, our allowance for doubtful accounts was $88,331 and $48,783, respectively.

Parts and Supplies

Parts and supplies are valued at the lower of cost or net realizable value. Costs are determined using the first-in, first-out method. Parts and supplies are used for scanning and document conversion services. A provision for potentially obsolete or slow-moving parts and supplies inventory is made based on parts and supplies levels, future sales forecasted and management’s judgment of potentially obsolete parts and supplies. We recorded an allowance of $24,000 at December 31, 2022 and 2021.

Property and Equipment

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

Intangible Assets

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

Goodwill

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

Impairment of Long-Lived Assets

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

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

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

Purchase Accounting Related Fair Value Measurements

We allocate the purchase price, including contingent consideration, of our acquisitions to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition, with the exception of acquired contract assets and contract liabilities, which are measured under ASC 606. Such fair market value assessments are primarily based on third-party valuations using assumptions developed by management that require significant judgments and estimates that can change materially as additional information becomes available. The purchase price allocated to intangibles is based on unobservable factors, including but not limited to, projected revenues, expenses, customer attrition rates, a weighted average cost of capital, among others. The weighted average cost of capital uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows. The approach to valuing the initial contingent consideration associated with the purchase price also uses similar unobservable factors such as projected revenues and expenses over the term of the contingent earn-out period, discounted for the period over which the initial contingent consideration is measured, and volatility rates. We finalize the purchase price allocation once certain initial accounting valuation estimates are finalized, and no later than 12 months following the acquisition date.

Leases

We determine if an arrangement is a lease at inception. Operating leases in which we are the lessee are included in operating lease right-of-use ("ROU") assets and operating lease liabilities in the consolidated balance sheets. Finance leases in which we are the lessee are included in finance lease right-of-use ("ROU") assets and finance lease liabilities in the consolidated balance sheets. We do not have any leases for which we are the lessor.

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

Stock-Based Compensation

We account for stock-based payments in accordance with ASC 718, "Compensation - Stock Compensation," which requires that such equity instruments be measured at their fair values on the grant date. 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 grant date fair value of stock option awards is recognized in earnings as stock-based compensation cost over the requisite service period of the award using the straight-line attribution method. We estimate the fair value of the stock option awards using the Black-Scholes-Merton option pricing model. The exercise price of options is specified in the stock option agreements. The expected volatility is based on the historical volatility of our stock for the previous period equal to the expected term of the options. The expected term of options granted is based on the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate is based upon a U.S. Treasury instrument with a life that is similar to the expected term of the options. The expected dividend yield is based upon the yield expected on date of grant to occur over the term of the option.

Software Development Costs

We design, develop, test, market, license, and support new software products and enhancements of current products. We continuously monitor our software products and enhancements to remain compatible with standard platforms and file formats. In accordance with ASC 985-20 "Costs of Software to be Sold, Leased or Otherwise Marketed," we expense software development costs, including costs to develop software products or the software component of products to be sold, leased, or marketed to external users, before technological feasibility is reached. Once technological feasibility has been established, certain software development costs incurred during the application development stage are eligible for capitalization. Based on our software development process, technical feasibility is established upon completion of a working model. Technological feasibility is typically reached shortly before the release of such products. Such costs in the amount of $43,771 were capitalized during the 2022. No such costs were capitalized during 2021.

In accordance with ASC 350-40, "Internal-Use Software," we capitalize purchase and implementation costs of internal use software. Once an application has reached development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable that the expenditure will result in additional functionality. Such costs in the amount of $376,345 were capitalized during 2022. Such costs in the amount of $38,305 were capitalized during 2021.

Capitalized costs are stated at cost less accumulated amortization. Amortization is computed over the estimated useful lives of the related assets on a straight-line basis, which is three years. At December 31, 2022 and 2021, our consolidated balance sheets included $402,673 and $38,305, respectively, in other long-term assets.

For the years ended December 31, 2022, and 2021, our expensed software development costs were $253,797 and $345,697, respectively.

Recently Issued Accounting Pronouncements Not Yet Effective

Financial Instruments – Credit Losses

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

In October 2021, the FASB issued ASU No. 2021-08, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805). This ASU requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired contracts using the revenue recognition guidance in Topic 606. At the acquisition date, the acquirer applies the revenue model as if it had originated the acquired contracts. The ASU is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years, with early adoption permitted. Adoption of the ASU should be applied prospectively. The Company elected to early adopt ASU 2021-08 on a prospective basis during the second quarter of 2022 in connection with the purchase price allocation for the Yellow Folder acquisition (see Note 4).

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

Advertising

We expense the cost of advertising as incurred. Advertising expense for the years ended December 31, 2022 and 2021 amounted to $25,830 and $10,237, respectively.

Earnings Per Share

Basic income or loss per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted income or loss per share is computed by dividing net income or loss by the diluted weighted average number of shares of common stock outstanding during the period. The diluted weighted average number of shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings per share exclude all diluted potential shares if their effect is anti-dilutive, including warrants or options which are out-of-the-money and for those periods with a net loss. The twelve months ended December 31, 2022 and 2021 reported net income.

Income Taxes

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

Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the financial reporting and tax bases of assets and liabilities as of each period-end based on enacted tax laws and statutory rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. A 100% valuation allowance has been established on deferred tax assets at December 31, 2022 and 2021, due to the uncertainty of our ability to realize future taxable income.

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

Segment Information

Operating segments are defined in the criteria established under ASC 280, "Segment Reporting," as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by our chief operating decision maker ("CODM") in deciding how to assess performance and allocate resources. Our CODM assesses performance and allocates resources based on two operating segments: Document Management and Document Conversion. These segments contain individual business components that have been combined on the basis of common management, customers, solutions offered, service processes and other economic characteristics. We currently have immaterial intersegment sales. We evaluate the performance of our segments based on gross profits.

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

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

Information by operating segment is as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Revenues		
Document Management	$ 5,999,726	$ 3,089,669
Document Conversion	8,017,202	8,370,596
Total revenues	$ 14,016,928	$ 11,460,265
Gross profit		
Document Management	$ 4,978,163	$ 2,542,135
Document Conversion	3,930,995	4,400,847
Total gross profit	$ 8,909,158	$ 6,942,982
Capital additions, net		
Document Management	$ 434,654	$ 44,052
Document Conversion	186,442	546,433
Total capital additions, net	$ 621,096	$ 590,485
	December 31, 2022	December 31, 2021
Goodwill		
Document Management	$ 3,989,645	$ 522,711
Document Conversion	1,800,176	1,800,176
Total goodwill	$ 5,789,821	$ 2,322,887
	December 31, 2022	December 31, 2021
Total assets		
Document Management	$ 10,284,143	$ 2,233,419
Document Conversion	9,658,959	9,728,713
Total assets	$ 19,943,142	$ 11,962,132

Statement of Cash Flows

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

Reclassifications

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

4. Business Acquisitions

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

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

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

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

Acquisition costs which include legal and other professional fees of $355,281 for the twelve months ended December 31, 2022, were expensed as nonrecurring transaction costs and are included in transaction costs in the accompanying consolidated statements of operations.

The following unaudited pro forma information presents a summary of the consolidated results of operations for the Company as if the acquisition of Yellow Folder had occurred on January 1, 2021.

	For the twelve months ended			
	(unaudited)		(unaudited)	
	December 31, 2022		December 31, 2021	
Total revenues	$	14,794,780	$	14,273,739
Net income	$	58,543	$	1,316,854
Basic net income per share	$	0.01	$	0.32
Diluted net income per share	$	0.01	$	0.29

The unaudited pro forma consolidated results are based on our historical financial statements and those of Yellow Folder and do not necessarily indicate the results of operations that would have resulted had the acquisition actually been completed at the beginning of the applicable period presented. The pro forma financial information assumes that the companies were combined as of January 1, 2021.

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

		For the twelve months ended December 31, 2022
Yellow Folder:		
Total revenues	$	2,460,474
Net income	$	520,186

5. Intangible Assets, Net

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

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

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

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

Amortization expense for the years ended December 31, 2022 and 2021, amounted to $436,850 and $216,475, respectively. The following table represents future amortization expense for intangible assets subject to amortization.

For the Years Ending December 31,		Amount
2023	$	510,308
2024		510,308
2025		492,841
2026		352,441
2027		326,108
Thereafter		2,227,640
	$	4,419,646

6. Fair Value Measurements

Under GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy consists of the following three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs consist of quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The carrying values of cash and equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of its short maturity. Management believes that the carrying value of the 2020 Notes and 2022 Notes approximate fair value given that, while there has been change in the overall economic environment, including a significant increase in interest rates, there has not been significant net availability of credit to the Company.

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

The following table provides a summary of the changes in fair value of the earnout liabilities for the years ended December 31, 2022 and 2021:

	Year ended December 31, 2022
Fair value at January 1, 2022	$ 1,630,681
Payments	(1,018,333)
Change in fair value	87,652
Fair value at December 31, 2022	$ 700,000

	Year ended December 31, 2021
Fair value at January 1, 2021	$ 2,444,000
Payments	(954,733)
Change in fair value	141,414
Fair value at December 31, 2021	$ 1,630,681

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

7. Property and Equipment

Property and equipment are comprised of the following:

	December 31, 2022	December 31, 2021
Computer hardware and purchased software	$ 1,595,652	$ 1,494,918
Leasehold improvements	395,918	295,230
Furniture and fixtures	71,325	71,325
	2,062,895	1,861,473
Less: accumulated depreciation	(994,189)	(769,693)
Property and equipment, net	$ 1,068,706	$ 1,091,780

Total depreciation expense on our property and equipment for the years ended December 31, 2022 and 2021 amounted to $229,599 and $197,457, respectively.

8. Notes Payable – Unrelated Parties

Summary of Notes Payable to Unrelated Parties

The table below summarizes all notes payable at December 31, 2022 and 2021, respectively with the exception of related party notes disclosed in Note 9 "Notes Payable - Related Parties."

	December 31, 2022	December 31, 2021
2022 Unrelated Notes	$ 2,364,500	$ -
2020 Notes	980,450	2,000,000
Total notes payable	$ 3,344,950	$ 2,000,000
Less unamortized debt issuance costs	(300,904)	(121,029)
Less unamortized debt discount	(22,045)	(124,444)
Less current portion, net	(936,966)	-
Long-term portion of notes payable	$ 2,085,035	$ 1,754,527

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

As of December 31,	Amount
2023	$ 980,450
2025	2,364,500
Total	$ 3,344,950

As of December 31, 2022 and 2021, accrued interest for these notes payable with the exception of the related party notes in Note 9, "Notes Payable - Related Parties," was $0. As of December 31, 2022 and 2021, unamortized debt issuance costs and unamortized debt discount were reflected within short and long term liabilities on the consolidated balance sheets, netted with the corresponding notes payable balance.

With respect to all notes outstanding (other than the notes to related parties), interest expense, including the amortization of debt issuance costs and debt discount for the years ended December 31, 2022 and 2021 was $737,949 and $452,120, respectively.

2022 Unrelated Notes

On April 1, 2022, we sold $2,364,500 in 12% Subordinated Notes ("2022 Unrelated Notes") to unrelated accredited investors. The entire outstanding principal and unpaid interest of the 2022 Notes are due and payable on March 30, 2025. Interest on the 2022 Unrelated Notes accrues at the rate of 12% per annum, payable quarterly in cash, beginning on September 30, 2022. Any accrued but unpaid quarterly installment of interest will accrue interest at the rate of 14.0% per annum. Any overdue principal and accrued and unpaid interest at the maturity date will accrue a mandatory default penalty of 20% of the outstanding principal balance and an interest rate of 14% per annum from the maturity date until paid in full. We used a portion of the net proceeds from the private placement offering to finance the acquisition of Yellow Folder and the remaining net proceeds for working capital and general corporate purposes.

2020 Notes

On March 2, 2020, we sold 2,000 units, at an offering price of $1,000 per unit, to accredited investors in a private placement offering, with each unit consisting of $1,000 in 12% Subordinated Notes ("2020 Notes") and 40 shares of our common stock, for aggregate gross proceeds of $2,000,000. The entire outstanding principal and unpaid interest of the 2020 Notes were initially due and payable on February 28, 2023. On December 1, 2022, we paid the note holders an amount totaling $1,019,550 as a prepayment of principal. In December 2022, a majority of the note holders signed an amendment to extend the maturity date for $717,500 of the remaining $980,450 in 2020 Notes to August 31, 2023. Interest on the 2020 Notes accrues at the rate of 12% per annum, payable quarterly in cash, beginning on June 30, 2021. Any accrued but unpaid quarterly installment of interest will accrue interest at the rate of 14.0% per annum. Any overdue principal and accrued and unpaid interest at the maturity date will accrue a mandatory default penalty of 20% of the outstanding principal balance and an interest rate of 14% per annum from the maturity date until paid in full. We used a portion of the net proceeds from the private placement offering to finance the acquisitions of Graphic Sciences and CEO Image and the remaining net proceeds for working capital and general corporate purposes. We recognized a debt discount of $320,000 for the 80,000 shares issued in conjunction with the units. The amortization of the debt discount, which will be recognized over the life of the 2020 Notes as interest expense, for the years ended December 31, 2022 and 2021 was $102,400 and $106,666, respectively.

PPP Note

On April 15, 2020, we were issued an unsecured promissory note ("PPP Note") under the Paycheck Protection Program through PNC Bank with a principal amount of $838,700. The term of the PPP Note Payable was two years, with an interest rate of 1.0% per annum deferred for the first six months. We received notice on January 20, 2021 that the Small Business Administration had forgiven the full amount of principal and interest of the PPP Note, and we have recognized a gain on extinguishment of debt of $845,083 for the year ended December 31, 2021.

9. Notes Payable - Related Parties

Summary of Notes Payable to Related Parties

The table below summarizes all notes payable to related parties at December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Notes payable – "2022 Related Note"	$ 600,000	$ -
Less unamortized debt issuance costs	(70,916)	-
Long-term portion of notes payable	$ 529,084	$ -

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

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

As of December 31, 2022 and 2021, accrued interest for these notes payable – related parties was $0. As of December 31, 2022 and 2021, unamortized deferred financing costs were reflected within long term liabilities on the consolidated balance sheets.

With respect to all notes payable – related parties outstanding, interest expense, including the amortization of debt issuance costs, for the years ended December 31, 2022 and was $77,638 and $0, respectively.

2022 Related Note

On April 1, 2022, we issued a 12% Subordinated Note with a principal amount of $600,000 (the "2022 Related Note") to Robert Taglich (holding more than 5% beneficial interest in the Company's Shares). The entire outstanding principal and unpaid interest of the 2022 Related Note is due and payable on March 30, 2025. Interest on the 2022 Related Note accrues at the rate of 12% per annum, payable quarterly in cash, beginning on September 30, 2022. Any accrued but unpaid quarterly installment of interest will accrue interest at the rate of 14.0% per annum. Any overdue principal and accrued and unpaid interest at the maturity date will accrue a mandatory default penalty of 20% of the outstanding principal balance and an interest rate of 14% per annum from the maturity date until paid in full. We used a portion of the net proceeds from the private placement offering to finance the acquisition of Yellow Folder and the remaining net proceeds for working capital and general corporate purposes.

10. Deferred Compensation

Pursuant to an employment agreement, we have accrued incentive compensation totaling $0 and $100,828 as of December 31, 2022 and 2021, respectively, for one of our founders. During the year ended December 31, 2022, we paid $100,828, in deferred incentive compensation, which amount was reflected as a reduction in our deferred compensation liability. We made no deferred incentive compensation payments during 2021.

11. Commitments and Contingencies

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

Employment Agreements

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

Leases

On January 1, 2010, we entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio, used for our corporate headquarters, Document Conversion operations, and a small portion of our Document Management operations. The lease commenced on January 1, 2010 and, pursuant to a lease extension dated September 18, 2021, the lease expires on December 31, 2028. The monthly rental payment is $4,950, with gradually higher annual increases each January up to $5,850 for the final year.

We lease 36,000 square feet of space in Madison Heights, Michigan as the main facility for our Document Conversion operations. 20,000 square feet is used for records storage services, with the remainder of the space used for production, sales, and administration. The monthly rental payment is $43,185, with gradually higher annual increases each September up to $45,828 for the final year, and with a lease term continuing until August 31, 2026.

We also lease a separate 37,000 square foot building in Sterling Heights, Michigan for our Document Conversion operations, with most of the space used for document storage, except approximately 5,000 square feet, which is used for production. The monthly rental payment is $21,072, with gradually higher annual increases each May up to $24,171 for the final year, and with a lease term continuing to April 30, 2028.

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

We also lease and use vehicles for logistics pertaining to our Document Conversion segment, primarily pickup and delivery of client materials, including storage and retrieval operations. The monthly rental payments for these vehicles total $4,789, with lease terms continuing until September 30, 2028.

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

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

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

For the Year Ending December 31,	Finance Lease	Operating Leases
2023	$ 33,195	$ 940,923
2024	33,195	879,142
2025	33,195	880,254
2026	33,195	713,362
2027	33,195	355,972
Thereafter	24,896	166,833
	$ 190,871	$ 3,936,536

The following table summarizes the components of lease expense:

For the Year Ending December 31,	2022	2021
Finance lease expense:		
Amortization of ROU assets	$ 6,708	$ -
Interest on lease liabilities	2,933	-
Operating lease expense	952,270	1,043,980
Short-term lease expense	19,254	97,024

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

For the Year Ending December 31,	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Financing cash flows from finance lease (interest)	$ 2,933	$ -
Financing cash flows from finance lease (principal)	5,366	-
Operating cash flows from operating leases	635,324	729,549
ROU assets obtained in exchange for new finance lease liability	160,990	-
Weighted average remaining lease term – finance lease	5.8 years	-
Weighted average remaining lease term – operating leases	4.5 years	5.4 years
Discount rate – finance lease	7.50 %	-
Weighted average discount rate – operating leases	6.97 %	7.02 %

	December 31, 2022	December 31, 2021
Operating leases:		
Right-of-use assets, operating	$ 3,200,191	$ 3,841,612
Lease liabilities, operating – current	692,074	616,070
Lease liabilities, operating – net of current	2,624,608	3,316,682
Total operating lease liabilities	$ 3,316,682	$ 3,932,752
Finance leases:		
Right-of-use asset, finance	$ 160,990	$ -
Accumulated amortization	6,708	-
Right-of-use asset, finance, net	154,282	-
Lease liability, finance – current	22,493	-
Lease liability, finance – net of current	133,131	-
Total finance lease liability	$ 155,624	$ -

12. Stockholders’ Equity

Description of Authorized Capital

We are authorized to issue up to 25,000,000 shares of common stock with $0.001 par value. The holders of our common stock are entitled to one vote per share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. However, the current policy of the Board of Directors is to retain earnings, if any, for the operation and expansion of the business. Upon liquidation, dissolution or winding-up of Intellinetics, the holders of common stock are entitled to share ratably in all assets legally available for distribution.

Common Stock

As of December 31, 2022, 4,073,757 shares of common stock were issued and outstanding, 255,958 shares of common stock were reserved for issuance upon the exercise of outstanding warrants, and 497,330 shares of common stock were reserved for issuance under our 2015 Equity Incentive Plan, as amended (the “2015 Plan”).

Private Placement 2022

On April 1, 2022, we entered into a Securities Purchase Agreement with certain accredited investors, pursuant to which we issued and sold (i) 1,242,588shares of the Company’s Common Stock, at a price of $4.62 per share, for aggregate gross proceeds of

$5,740,756 and (ii) $2,964,500 in 12% Subordinated Notes, for aggregate gross proceeds of $8,705,256 for the combined private placement. We used a portion of the net proceeds of the offering to finance the acquisition of Yellow Folder, and used the remaining net proceeds for working capital and general corporate purposes, including debt reduction.

We retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement. In compensation, we paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase shares of Company common stock, an extension of its existing warrants, and reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. On April 1, 2022, the Company paid the placement agent cash in the amount of $696,420 and issued the placement agent warrants to purchase 124,258 shares at an exercise price at $4.62 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and are entitled to limited piggyback registration rights. In addition, we agreed to extend the expiration date of all currently outstanding warrants previously issued to the placement agent and/or its assignees to March 30, 2027. Debt issuance costs of $165,406 were recorded for the issuance of the April 1, 2022 warrants, utilizing the Black-Scholes valuation model. The fair value of warrants issued was determined to be $3.91. Debt issuance costs of $47,607 were recorded for the extension of the exercise period for existing unexpired warrants to March 30, 2027, utilizing the Black-Scholes valuation model. The fair value of warrants affected was determined to be from $3.30 to $3.97. Underwriting paid-in-capital charges of $492,181 and debt issuance costs of $254,160 was recorded for the placement agent cash fee and other related legal fees. Amortization of the debt issuance costs for this private placement offering was recorded at $116,793, for the year ended December 31, 2022.

Private Placement 2020

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

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

In connection with the private placement offering, we paid the placement agent $440,000 in cash, equal to 8% of the gross proceeds of the offering, along with 95,500 warrants to purchase shares of our common stock and reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. The warrants are exercisable at an exercise price at $4.00 per share for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and are entitled to limited piggyback registration rights. Underwriting expense of $236,761 and debt issuance costs of $135,291 were recorded for the issuance of the March 2, 2020 warrants, utilizing the Black-Scholes valuation model. The fair value of warrants issued was determined to be $3.90. Underwriting expense of $307,867 and debt issuance costs of $175,924 was recorded for the placement agent cash fee and other related legal fees. Amortization of the debt issuance costs for this private placement offering was recorded at $99,589 and $103,739 for the years ended December 31, 2022 and 2021.

Warrants

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

- Warrants to purchase 3,000 shares of common stock at an exercise price of $15.00 per share exercisable until March 30, 2027, issued to certain 5% stockholders.
- Warrants to purchase 17,200 shares of common stock at an exercise price of $12.50 per share exercisable until March 30, 2027, issued to the placement agent in connection with private placements of our convertible promissory notes.
- Warrants to purchase 16,000 shares of common stock at an exercise price of $9.00 per share exercisable until March 30, 2027, issued to the placement agent in connection with private placements of our convertible promissory notes.
- Warrants to purchase 95,500 shares of common stock at an exercise price of $4.00 per share exercisable until March 30, 2027, issued to the placement agent in connection with private placements of our promissory notes.
- Warrants to purchase 124,258 shares of common stock at an exercise price of $4.62 per share exercisable until March 30, 2027, issued to the placement agent in connection with private placements of our promissory notes.

Warrants to purchase 124,258 shares of common stock were issued during the year ended December 31, 2022 at a fair value determined to be $3.91 per warrant utilizing the Black-Scholes valuation model. The estimated value of the warrants issued during the year ended December 31, 2022, as well as the assumptions that were used in calculating such values, were based on estimates at the issuance date in the table below. No warrants were issued during 2021.

	Warrants Issued April 1, 2022
Risk-free interest rate	2.55 %
Weighted average expected term	5 years
Expected volatility	116.32 %
Expected dividend yield	0.00 %

13. *Stock-Based Compensation*

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

Restricted Stock

On January 6, 2022 and February 15, 2021, we issued 8,097 shares and 12,207 shares, respectively, of restricted common stock to our directors as part of their annual compensation plan. The grants of restricted common stock were made outside the 2015 Plan and were not subject to vesting. Stock compensation of $57,500 was recorded on this issuance of restricted common stock for the years ended December 31, 2022 and 2021.

Stock Options

On April 14, 2022, we granted employees stock options to purchase 220,587 shares at an exercise price of $6.08 per share in accordance with the 2015 Plan, with vesting continuing until 2025. The total fair value of $1,152,470 for these stock options is being recognized over the requisite service period. We did not make any stock option grants during 2021.

The weighted-average grant date fair value of options granted during the year ended December 31, 2022 was $5.22. The weighted average assumptions that were used in calculating such values during the year ended December 31, 2022, as well as the assumptions that were used in calculating such values, were based on estimates at the grant date in the table as follows:

	Grant Date April 14, 2022
Risk-free interest rate	2.82 %
Weighted average expected term	6 years
Expected volatility	116.60 %
Expected dividend yield	0.00 %

A summary of stock option activity during the years ended December 31, 2022 and 2021 is as follows:

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2022	144,860	$ 5.61	8 years	$ 19,200
Granted	220,587	6.08		
Outstanding at December 31, 2022	365,447	$ 5.89	8 years	$ 19,200
Exercisable at December 31, 2022	93,085	$ 6.44	7 years	$ 19,200

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2021	145,360	$ 5.61	9 years	$ 19,200
Forfeited and expired	(500)	6.50		
Outstanding at December 31, 2021	144,860	$ 5.61	8 years	$ 19,200
Exercisable at December 31, 2021	66,060	$ 7.35	8 years	$ 19,200

During the years ended December 31, 2022 and 2021, stock-based compensation for options was $363,950 and $92,253, respectively.

As of December 31, 2022 and 2021, there was $1,019,140 and $230,620, respectively, of total unrecognized compensation costs related to stock options granted under our stock option agreements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of two years. The total fair value of stock options that vested during the years ended December 31, 2022, and 2021 was $91,913.

Issues of Stock-Based Compensation

The following represent grants of stock options, including the fair value recognized or to be recognized over the requisite service period:

Grant date	Shares granted (canceled)	Exercise price	Date fully vested	Fair value
February 10, 2016	4,200	$ 48.00	February 10, 2020	$ 174,748
December 6, 2016	2,000	38.00	December 6, 2020	63,937
September 25, 2017	15,000	15.00	September 25, 2019	194,149
September 25, 2017	10,000	19.00	September 25, 2019	126,862
January 30, 2019	250	45.00	January 30, 2019	885
March 11, 2019	(33,200)	-	-	-
March 11, 2019	33,200	6.50	December 6, 2020	24,898 (1)
March 11, 2019	10,100	6.50	March 11, 2023	44,591
September 2, 2020	99,000	4.00	September 2, 2024	327,181
April 14, 2022	220,587	6.08	April 14, 2025	1,152,470

(1) Represents incremental fair value of replacement shares compared to canceled shares.

14. Concentrations

Revenues from a limited number of customers have accounted for a substantial percentage of our total revenues. During the years ended December 31, 2022 and 2021, our largest customer, the State of Michigan, accounted for 38% and 47%, respectively, of our total revenues for each period, and our second largest customer, Rocket Mortgage, accounted for 6% and 9%, respectively, of our total revenues.

For the years ended December 31, 2022, and 2021, government contracts, including K-12 education, represented approximately 77% and 72% of our net revenues, respectively. A significant portion of our sales to resellers represent ultimate sales to government agencies.

As of December 31, 2022, accounts receivable concentrations from our two largest customers were 44% and 7% of gross accounts receivable, respectively by customer. As of December 31, 2021, accounts receivable concentrations from our two largest customers were 65% and 7% of our gross accounts receivable, respectively by customer. Accounts receivable balances from our two largest customers at December 31, 2022 have been partially collected.

15. Certain Relationships and Related Transactions

Certain Relationships and Related Transactions

The following is a summary of the related person transactions that Intellinetics has participated in at any time during the reporting period.

Notes Payable – Related Parties

See Note 9 for a summary of notes issued to related parties.

2022 Private Placement

The following related persons participated as investors a private placement of our securities, on the same terms as all other investors participating in the offering. We issued and sold (i) shares of common stock, at a price of $4.62 per share and (ii) 12% subordinated notes. The principal amount of the 12% subordinated notes, together with any accrued and unpaid interest thereon, become due and payable from February 28, 2023 to August 31, 2023.

Name of Investor	Relationship to Intellinetics	Number of Shares Purchased	Amount of Notes Purchased	Date of Transaction
Michael N. Taglich	Beneficially owns more than 5% of the common stock of Intellinetics.	262,986	-	04/01/2022
Robert F. Taglich	Beneficially owns more than 5% of the Common Stock of Intellinetics.	179,652	$ 600,000	04/01/2022

Promoters and Certain Control Persons

William M. Cooke, a director of Intellinetics, is the Vice President of Investment Banking at Taglich Brothers, Inc. Robert F. Taglich and Michael N. Taglich, each beneficial owners of more than 5% of our common stock, are also both principals of Taglich Brothers, Inc.

We retained Taglich Brothers, Inc. on an exclusive basis to render financial advisory and investment banking services to us in connection with our acquisition of Yellow Folder. Pursuant to an Engagement Agreement, dated May 1, 2020, we paid Taglich Brothers, Inc. a success fee of $200,000 as a result of the successful completion of the acquisition of Yellow Folder.

We retained Taglich Brothers, Inc., as the exclusive placement agent for the 2022 private placement, as described above, pursuant to a Placement Agent Agreement. In connection with the 2022 private placement, we paid Taglich Brothers, Inc. $696,420, which represented an 8% commission based upon the gross proceeds of the 2022 private placement. In addition, for its services in the 2022 private placement, Taglich Brothers, Inc. was issued warrants to purchase 124,258 shares of common stock, which amount is equal to 10% of the shares sold in the 2022 private placement, which have an exercise price of $4.62 per share of common stock, are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection rights and are entitled to piggy-back registration rights.

16. Subsequent Events

Payment of Earnout Liabilities

On January 3, 2023, we paid the final earnout payment owed to the Graphic Sciences sellers, in the amount of $700,000, pursuant to a December 2022 amendment to the stock purchase agreement.

Payment of 2020 Notes

On February 28, 2023, we paid $262,950 in principal for the 2020 Notes.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain "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 office, 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, 2022 and concluded that our disclosure controls and procedures were effective as of December 31, 2022.

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 consolidated 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 consolidated 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 of December 31, 2022, our disclosure controls and procedures were effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act and we did maintain effective internal control over financial reporting, based on criteria issued by COSO.

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

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, 2022, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION.

Not applicable.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Incorporated by reference to our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2022.

ITEM 11. EXECUTIVE COMPENSATION

Incorporated by reference to our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2022.

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

Incorporated by reference to our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2022.

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

Incorporated by reference to our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2022.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Incorporated by reference to our definitive Proxy Statement for the 2023 Annual Meeting of Stockholders, which will be filed with the SEC no later than 120 days after December 31, 2022.

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.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 27, 2023.

Intellinetics, Inc.

By: */s/ James F. DeSocio*

James F. DeSocio

President, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 27, 2023.

Name	Title
/s/ James F. DeSocio	President, Chief Executive Officer, and Director
James F. DeSocio	(Principal Executive Officer)
/s/ Joseph D. Spain	Chief Financial Officer and Treasurer
Joseph D. Spain	(Principal Financial and Accounting Officer)
/s/ Matthew L. Chretien	Chief Strategy Officer, Chief Technology Officer, Secretary,
Matthew L. Chretien	and Director
/s/ Rye D'Orazio	Director
Rye D'Orazio	
/s/ Roger Kahn	Director
Roger Kahn	
/s/ William M. Cooke	Chairman of the Board, Director
William M. Cooke	
/s/ Sophie Pibouin	Director
Sophie Pibouin	
/s/ John Guttilla	Director
John Guttilla	

EXHIBIT INDEX

Exhibit No.	Description	Incorporation by Reference		
		Form	Exhibit	Filing Date
3.1.1	Articles of Incorporation of Intellinetics, Inc.	10-SB	3.1	10-02-2000
3.1.2	Certificate of Correction, effective May 22, 2007	8-K	3.1	06-15-2007
3.1.3	Certificate of Amendment to Articles of Incorporation of Intellinetics, Inc.	8-K	99.1	09-03-2014
3.1.4	Certificate of Amendment to Articles of Incorporation of Intellinetics, Inc., dated March 2, 2020	8-K	3.1	03-04-2020
3.1.5	Certificate of Amendment to Articles of Incorporation of Intellinetics, Inc., dated March 3, 2020	8-K	3.2	03-04-2020
3.2.1	Bylaws of Intellinetics, Inc.	10-SB	3.3	10-02-2000
3.2.2	Amendment No. 1 to the Bylaws of Intellinetics, Inc.	8-K	3.4	03-01-2012
3.2.2	Amendment No. 2 to the Bylaws of Intellinetics, Inc.	8-K	3.3	03-04-2020
4.1	Form of Stock Certificate	10-K	4.1	03-30-2020
4.2	Form of Placement Agent Warrants, dated January 31, 2017	8-K	10.3	01-06-2017
4.3	Form of Warrant to Purchase Common Stock, issued October 22, 2017	8-K	10.2	10-26-2017
4.4	Form of Placement Agent Warrants	8-K	10.5	11-24-2017
4.5	Form of Placement Agent Warrants	8-K	10.3	09-26-18
4.6	Form of 12% Subordinated Notes, dated March 2, 2020	8-K	10.2	03-04-2020
4.7	Form of Placement Agent Warrants, dated March 2, 2020	8-K	4.4	03-04-2020
4.8	Description of Registered Securities +			
4.9	Amendment to 12% Subordinated Promissory Notes	8-K	10.1	11-28-2022
4.10	Form of Placement Agent Warrants, dated April 1, 2022	8-K	4.1	04-05-2022
4.11	Form of 12% Subordinated Notes, dated April 1, 2022	8-K	10.2	04-05-2022
10.1	Amended Employment Agreement of Matthew L. Chretien, dated September 16, 2011	8-K	10.37	02-13-2012
10.2	Amended Offer of Employment of Matthew L. Chretien, dated September 16, 2011	8-K	10.38	02-13-2012

10.3	Employment Agreement of Joseph D. Spain dated December 2, 2016	8-K	10.3	12-06-2016
10.4	Lease Renewal Agreement by and between Intellinetics, Inc. and Dividend Drive LLC, dated as of August 9, 2016	10-K	10.6	03-30-2017
10.5	Intellinetics, Inc. 2015 Equity Incentive Plan	8-K	10.3	04-30-2015
10.6	First Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated September 25, 2017	8-K	10.2	09-26-2017
10.7	Second Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated February 19, 2018	8-K	10.2	02-23-2018
10.8	Third Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated April 17, 2020	10-K	10.8	3-24-2022
10.9	Fourth Amendment to Intellinetics, Inc. 2015 Equity Incentive Plan, dated April 29, 2021	8-K	10.1	05-05-2021
10.10	Form of Non-Qualified Stock Option Agreement under Company's 2015 Equity Incentive Plan	10-K	10.9	03-28-2016
10.11	Form of Incentive Stock Option Agreement under Company's 2015 Equity Incentive Plan	8-K	10.6	01-05-2016
10.12	Offer Letter, dated September 25, 2017, between Intellinetics, Inc. and James F. DeSocio	8-K	10.1	09-26-2017
10.13	Intellinetics, Inc. 2018 Executive Incentive Compensation Plan	8-K	10.3	02-23-2018
10.14	Amendment, dated February 19, 2018, between Intellinetics, Inc. and Joseph D. Spain	8-K	10.1	02-23-2018
10.15	State of Michigan Enterprise Procurement Notice of Contract No 171 180000000749, between the State of Michigan and Graphic Sciences, Inc., with Standard Contract Terms, dated June 1, 2018	8-K	10.4	03-04-2020
10.16	Standard Industrial Lease Agreement, by and between KHS Properties, LLC and Graphic Sciences, Inc., dated August 30, 2018.	10-K	10.14	03-30-2021
10.17	Lease, by and between Liberty Park Commerce Center, LLC and Graphic Sciences, Inc., dated February 5, 2021.	10-K	10.15	03-30-2021
21.1	List of Subsidiaries of Intellinetics, Inc. +			
23.1	Consent of Independent Registered Public Accounting Firm +			
31.1	Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 +			

31.2	Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 +
32.1	Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 +
32.2	Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 +
101.INS	Inline XBRL Instance Document +
101.SCH	Inline XBRL Taxonomy Extension Schema Document +
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document +
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document +
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document +
101.PRE	Inline XBRL Taxonomy Extension Linkbase Document +

\+ Filed herewith:

Exhibit 4.8 4.6

Description of the Company's Common Stock Registered under Section 12 of the Exchange Act of 1934

The following summary of Intellinetics, Inc.'s common stock is based on and qualified by the Company's Articles of Incorporation, as amended (the "Articles") and Bylaws, as amended ("Bylaws"). For a complete description of the terms and provisions of the Company's common stock, refer to the Articles and Bylaws, both of which are filed as exhibits to this Annual Report on Form 10-K.

The Company's authorized capital stock consists of 25,000,000 shares of common stock, par value $0.001 per share.

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the stockholders. Shares of common stock do not have cumulative voting rights. Holders of record of shares of common stock are entitled to receive dividends when and if declared by the Board of Directors. To date, we have not paid cash dividends. We intend to retain any earnings for the operation and expansion of our business and do not anticipate paying cash dividends in the foreseeable future.

Any future determination as to the payment of cash dividends will depend on future earnings, results of operations, capital requirements, financial condition and such other factors as the Board of Directors may consider. Upon liquidation, dissolution or winding-up, the holders of our common stock are entitled to share ratably in all assets that are legally available for distribution.

Holders of our common stock do not have pre-emptive rights to subscribe for or to purchase any stock, obligations or other securities.

All of the shares of common stock currently issued are fully paid and non-assessable.

Exhibit 21.1

Subsidiaries of the Registrant

Listed below are the subsidiaries of Intellinetics, Inc. as of December 31, 2022 December 31, 2023.

Subsidiary Name	State/Jurisdiction of Incorporation
1. Intellinetics, Inc.	Ohio
2. Graphic Sciences, Inc.	Michigan

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Intellinetics, Inc. and Subsidiaries
Columbus, Ohio

We hereby consent to the incorporation by reference in the Registration Statements on Form S-1 (No. 333-237721, 333-222765, 333-210484, and 333-264981) of Intellinetics, Inc. of our report dated March 27, 2023 March 28, 2024 on the consolidated financial statements of Intellinetics, Inc. and Subsidiaries, which appear in this Annual Report on Form 10-K of Intellinetics, Inc.

/s/ GBQ Partners LLC

Columbus, Ohio
March 27, 2023 28, 2024

Exhibit 31.1

Exhibit 31.1
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, James F. DeSocio, certify that:

1. I have reviewed this 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: March 27, 2023 March 28, 2024

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

Exhibit 31.2

Exhibit 31.2
Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph D. Spain, certify that:

1. I have reviewed this 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: March 27, 2023 March 28, 2024

By: */s/ Joseph D. Spain*

Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intellinetics, Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, James F. DeSocio, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2023 March 28, 2024

By: */s/ James F. DeSocio*

President and Chief Executive Officer

Exhibit 32.2

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Intellinetics, Inc. (the "Company") on Form 10-K for the year ended December 31, 2022 December 31, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Joseph D. Spain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 27, 2023 March 28, 2024

By: */s/ Joseph D. Spain*

Chief Financial Officer

DISCLAIMER

THE INFORMATION CONTAINED IN THE REFINITIV CORPORATE DISCLOSURES DELTA REPORT™ IS A COMPARISON OF TWO FINANCIALS PERIODIC REPORTS. THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORT INCLUDING THE TEXT AND THE COMPARISON DATA AND TABLES. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN THIS REPORT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S ACTUAL SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.