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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2024

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

For the transition period from ____________________to ________________________

Commission file number: 001-41495

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

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

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.001 par value	INLX	NYSE American

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

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

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

Large accelerated filer	☐	(Do not check if a smaller reporting company)	Accelerated filer	☐
Non-accelerated filer	☐		Smaller reporting company	☒
Emerging growth company	☐			

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

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

As of August 9, 2024, there were 4,230,806 shares of the issuer's common stock outstanding, each with a par value of $ 0.001 per share.

INTELLINETICS, INC.
Form 10-Q
June 30, 2024
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- the amount and timing of revenue recognition from customer contracts with commitments for performance obligations, including our estimate of the remaining amount of commitments and when we expect to recognize revenues;

- industry trends and customer preferences and the demand for our products, services, technologies and systems; and

- the nature and intensity of our competition, and our ability to successfully compete in our markets.

Any forward-looking statements we make are based on our current plans, intentions, objectives, strategies, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, filed on March 28, 2024, and those described in Part II, Item 1A, "Risk Factors," of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024, filed on May 14, 2024, as well as other risks, uncertainties and factors discussed elsewhere in this Quarterly Report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the Securities and Exchange Commission (the "SEC"). In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

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

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

INTELLINETICS, INC. and SUBSIDIARIES
Condensed Consolidated Balance Sheets

	(unaudited) June 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash	$ 1,680,669	$ 1,215,248
Accounts receivable, net	1,449,188	1,850,375
Accounts receivable, unbilled	1,483,313	1,320,837
Parts and supplies, net	93,926	110,272
Contract assets	141,214	140,165
Prepaid expenses and other current assets	335,380	367,478
Total current assets	5,183,690	5,004,375
Property and equipment, net	999,276	924,257
Right of use assets, operating	2,276,171	2,532,928
Right of use assets, finance	274,112	219,777
Intangible assets, net	3,654,183	3,909,338
Goodwill	5,789,821	5,789,821
Other assets	685,471	645,764
Total assets	$ 18,862,724	$ 19,026,260
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 340,298	$ 194,454
Accrued compensation	540,237	337,884
Accrued expenses	160,947	164,103
Lease liabilities, operating - current	797,870	712,607
Lease liabilities, finance - current	66,000	49,926
Deferred revenues	2,755,185	2,927,808
Total current liabilities	4,660,537	4,386,782
Long-term liabilities:		
Notes payable	1,467,312	2,209,242
Notes payable - related party	572,063	560,602
Lease liabilities, operating - net of current portion	1,596,960	1,942,970
Lease liabilities, finance - net of current portion	219,490	175,943
Total long-term liabilities	3,855,825	4,888,757
Total liabilities	8,516,362	9,275,539
Stockholders' equity:		

Common stock, $0.001 par value, 25,000,000 shares authorized; 4,230,806 and 4,113,621 shares issued and outstanding at June 30, 2024 and December 31, 2023, respectively		4,231		4,114
Additional paid-in capital		31,536,818		30,841,630
Accumulated deficit		(21,194,687)		(21,095,023)
Total stockholders' equity		10,346,362		9,750,721
Total liabilities and stockholders' equity	$	18,862,724	$	19,026,260

See Notes to these condensed consolidated financial statements

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

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
		2024		2023		2024		2023
Revenues:								
Sale of software	$	14,933	$	63,646	$	20,712	$	78,939
Software as a service		1,400,591		1,277,918		2,805,744		2,516,350
Software maintenance services		353,966		349,139		711,949		698,681
Professional services		2,662,358		2,298,316		5,142,036		4,597,605
Storage and retrieval services		209,745		269,411		468,236		553,688
Total revenues		4,641,593		4,258,430		9,148,677		8,445,263
Cost of revenues:								
Sale of software		1,125		7,344		6,190		15,525
Software as a service		217,586		258,382		433,578		479,022
Software maintenance services		13,364		15,117		29,074		31,833
Professional services		1,344,541		1,307,341		2,628,604		2,494,457
Storage and retrieval services		61,998		79,813		148,608		188,154
Total cost of revenues		1,638,614		1,667,997		3,246,054		3,208,991
Gross profit		3,002,979		2,590,433		5,902,623		5,236,272
Operating expenses:								
General and administrative		2,025,796		1,561,939		4,154,289		3,116,550
Sales and marketing		530,439		492,303		1,072,060		1,071,814
Depreciation and amortization		274,638		239,803		538,648		467,521
Total operating expenses		2,830,873		2,294,045		5,764,997		4,655,885
Income from operations		172,106		296,388		137,626		580,387
Interest expense, net		(97,056)		(160,654)		(237,290)		(332,090)
Net income (loss)	$	75,050	$	135,734	$	(99,664)	$	248,297
Basic net income (loss) per share:	$	0.02	$	0.03	$	(0.02)	$	0.06
Diluted net income (loss) per share:	$	0.02	$	0.03	$	(0.02)	$	0.06
Weighted average number of common shares outstanding - basic		4,229,518		4,073,757		4,171,570		4,073,757
Weighted average number of common shares outstanding - diluted		4,722,063		4,073,757		4,171,570		4,073,757

See Notes to these condensed consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
For the Three and Six Months Ended June 30, 2024 and 2023
(unaudited)

	Common Stock			Additional Paid-in		Accumulated		Total
	Shares		Amount		Capital		Deficit		
Balance, March 31, 2023	4,073,757	$	4,074	$	30,297,179	$	(21,501,726)	$	8,799,527
Stock Option Compensation	-		-		115,455		-		115,455
Net Income	-		-		-		135,734		135,734
Balance, June 30, 2023	4,073,757	$	4,074	$	30,412,634	$	(21,365,992)	$	9,050,716
Balance, March 31, 2024	4,113,621	$	4,114	$	31,285,462	$	(21,269,737)	$	10,019,839

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
Stock Option Compensation	-	-	115,456	-	115,456
Restricted Share Issuance	117,185	117	135,900	-	136,017
Net Income	-	-	-	75,050	75,050
Balance, June 30, 2024	4,230,806	$ 4,231	$ 31,536,818	$ (21,194,687)	$ 10,346,362

	Common Stock		Additional Paid-in	Accumulated	
	Shares	Amount	Capital	Deficit	Total
Balance, December 31, 2022	4,073,757	$ 4,074	$ 30,179,017	$ (21,614,289)	$ 8,568,802
Stock Option Compensation	-	-	233,617	-	233,617
Net Income	-	-	-	248,297	248,297
Balance, June 30, 2023	4,073,757	$ 4,074	$ 30,412,634	$ (21,365,992)	$ 9,050,716
Balance, December 31, 2023	4,113,621	$ 4,114	$ 30,841,630	$ (21,095,023)	$ 9,750,721
Stock Option Compensation	-	-	230,912	-	230,912
Restricted Share Issuance	117,185	117	464,276	-	464,393
Net Loss	-	-	-	(99,664)	(99,664)
Balance, June 30, 2024	4,230,806	$ 4,231	$ 31,536,818	$ (21,194,687)	$ 10,346,362

See Notes to these condensed consolidated financial statements

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

	For the Six Months Ended June 30, 2024	2023
Cash flows from operating activities:		
Net (loss) income	$ (99,664)	$ 248,297
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	538,648	467,521
Bad debt (recovery) expense	(143)	27,528
Loss on disposal of fixed assets	547	-
Amortization of deferred financing costs	94,531	95,152
Amortization of debt discount	-	17,778
Amortization of right of use assets, financing	34,954	14,959
Share based compensation	695,305	233,617
Changes in operating assets and liabilities:		
Accounts receivable	401,330	(233,431)
Accounts receivable, unbilled	(162,476)	(441,603)
Parts and supplies	16,346	652
Prepaid expenses and other current assets	31,049	(27,999)
Accounts payable and accrued expenses	345,041	(22,062)
Operating lease assets and liabilities, net	(3,990)	6,280
Deferred revenues	(172,623)	(686,320)
Total adjustments	1,818,519	(547,928)
Net cash provided by (used in) operating activities	1,718,855	(299,631)
Cash flows from investing activities:		
Capitalization of internal use software	(198,051)	(208,417)
Purchases of property and equipment	(200,715)	(82,684)
Net cash used in investing activities	(398,766)	(291,101)
Cash flows from financing activities:		
Payment of earnout liabilities	-	(700,000)
Principal payments on financing lease liability	(29,668)	(12,312)
Repayment of notes payable	(825,000)	(262,950)
Net cash used in financing activities	(854,668)	(975,262)
Net increase (decrease) in cash	465,421	(1,565,994)
Cash - beginning of period	1,215,248	2,696,481
Cash - end of period	$ 1,680,669	$ 1,130,487
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 160,813	$ 226,570
Cash paid during the period for income taxes	$ 12,999	$ 7,708

Supplemental disclosure of non-cash financing activities:				
Right-of-use asset obtained in exchange for finance lease liability	$	89,289	$	-

See Notes to these condensed consolidated financial statements

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

1. Business Organization and Nature of Operations

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

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

2. Basis of Presentation

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

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

Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2024 or any other future period.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on March 28, 2024.

3. Summary of Significant Accounting Policies

Principles of Consolidation

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

Concentrations of Credit Risk

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

We do not generally require collateral or other security to support customer receivables; however, we may require customers to provide retainers, up-front deposits or irrevocable letters-of-credit when considered necessary to mitigate credit risks. The Company estimates a current estimated credit losses ("CECL") for accounts receivable and accounts receivable-unbilled. The CECL for receivables are estimated based on the receivable aging category, credit risk of specific customers, past collection history, and management's evaluation of collectability. Provisions for CECL are classified within selling, general and administrative costs.

Upon the adoption of FASB ASU No. 2016-13 (CECL model) effective January 1, 2023, Intellinetics, Inc. has revised its methodology for estimating expected credit losses on financial instruments, specifically trade receivables. This new model requires the recognition of lifetime expected credit losses at each reporting date, considering past events, current conditions, and reasonable forecasts. In assessing the credit quality of our portfolio, management utilizes a provision matrix that classifies trade receivables by customer type and age of receivable. Government and education sector receivables carry a low risk, while a higher risk is attributed to the remaining receivables as their aging progresses. For receivables with questionable collectability, a specific reserve is assigned. The estimated credit losses are a reflection of these factors, with the matrix applying percentages to the receivables based on their risk profile, adjusted for current and expected future conditions.

During the reporting period, the estimate of credit losses may change due to several factors including payment patterns of customers, changes in customer creditworthiness, and broader economic conditions. Such changes are captured in the financial statements to ensure they accurately reflect the company's assessment of credit risk and expected losses at the end of each reporting period. Credit losses have been within management's expectations. At June 30, 2024 and December 31, 2023, our allowance for credit losses was $120,365 and $124,103, respectively.

Changes in the allowance for credit losses for the periods ended June 30, 2024 and 2023 were as follows:

		Trade Receivables
As of December 31, 2023	$	(124,103)
(Provisions) Reductions charged to operating results	$	14,588
As of March 31, 2024	$	(109,515)
(Provisions) Reductions charged to operating results	$	(10,850)
As of June 30, 2024	$	(120,365)

		Trade Receivables
As of December 31, 2022	$	(88,331)
(Provisions) Reductions charged to operating results	$	(21,742)
Accounts write-offs	$	1,640
As of March 31, 2023	$	(108,433)
(Provisions) Reductions charged to operating results	$	(5,786)
Accounts write-offs	$	0
As of June 30, 2023	$	(114,219)

Revenue Recognition

We categorize revenue as software, software as a service, software maintenance services, professional services, and storage and retrieval services. We earn the majority of our revenue from the sale of professional services, followed by the sale of software as a service. We apply our revenue recognition policies as required in accordance with ASC 606 based on the facts and circumstances of each category of revenue. More detail regarding each category of revenue is contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on March 28, 2024.

Contract balances

The following table present changes in our contract assets during the six months ended June 30, 2024 and 2023:

	Balance at Beginning of Period	Billings	Payments Received	Balance at End of Period
Six months ended June 30, 2024				
Accounts receivable	$ 1,850,375	$ 8,889,383	$ (9,290,570)	$ 1,449,188
Six months ended June 30, 2023				
Accounts receivable	$ 1,121,083	$ 7,342,400	$ (7,136,497)	$ 1,326,986

	Balance at Beginning of Period	Revenue Recognized in Advance of Billings	Billings	Balance at End of Period
Six months ended June 30, 2024				
Accounts receivable, unbilled	$ 1,320,837	$ 2,972,740	$ (2,810,264)	$ 1,483,313
Six months ended June 30, 2023				
Accounts receivable, unbilled	$ 596,410	$ 2,703,932	$ (2,262,329)	$ 1,038,013

	Balance at Beginning of Period	Commissions Paid	Commissions Recognized	Balance at End of Period
Six months ended June 30, 2024				
Other contract assets	$ 140,165	$ 48,483	$ (47,434)	$ 141,214
Six months ended June 30, 2023				
Other contract assets	$ 80,378	$ 80,077	$ (63,985)	$ 96,470

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 99% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of June 30, 2024, 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 $35,657. As of December 31, 2023, the aggregate amount of the transaction price allocated to remaining performance obligations for software as a service and software maintenance contracts with a duration greater than one year was $72,212. 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 six months ended June 30, 2024 and 2023:

	Balance at Beginning of Period	Billings	Recognized Revenue	Balance at End of Period

Six months ended June 30, 2024				
Contract liabilities: Deferred revenue	$ 2,927,808	$ 3,953,386	$ (4,126,009)	$ 2,755,185
Six months ended June 30, 2023				
Contract liabilities: Deferred revenue	$ 2,754,064	$ 3,522,274	$ (4,208,594)	$ 2,067,744

Software Development Costs

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

In accordance with ASC 350-40, "Internal-Use Software," we capitalize purchase and implementation costs of internal use software. Once an application has reached development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable that the expenditure will result in additional functionality. Such costs in the amount of $88,430 and $198,051 were capitalized during the three and six months ended June 30, 2024. Such costs in the amount of $96,209 and $208,417 were capitalized during the three and six months ended June 30, 2023.

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 June 30, 2024 and December 31, 2023, our condensed consolidated balance sheets included $670,686 and $630,979, respectively, in other long-term assets.

For the three and six months ended June 30, 2024 and 2023, our expensed software development costs were $ 170,822 and $330,553, respectively, and $140,003 and $271,746, respectively.

Recently Issued Accounting Pronouncements Not Yet Effective

In November 2023, the FASB issued ASU No. 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures. This ASU improves financial reporting by requiring disclosure of significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included with each reported measure of significant profit or loss on an annual and interim basis. This ASU also requires that a public entity disclose the title and position of the CODM and an explanation of how the CODM uses the reported measures of a segment's profit or loss in assessing segment performance and deciding how to allocate resources. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. This ASU is required to be applied retrospectively for all prior periods presented in the financial statements. We are evaluating the adoption impact of this ASU on our condensed consolidated financial statements and related disclosures but do not expect any material impact upon adoption.

In December 2023, the FASB issued ASU 2023-09, Improvements to Income Tax Disclosures, which amends the guidance in ASC 740, Income Taxes. The ASU is intended to improve the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The ASU's amendments are effective for public business entities for annual periods beginning after December 15, 2024. Entities are permitted to early adopt the standard "for annual financial statements that have not yet been issued or made available for issuance." We are currently evaluating the impact of this ASU but do not expect any material impact upon adoption.

There are no other accounting standards that have been issued but not yet adopted that we believe could have a material impact on our consolidated financial statements.

Advertising

We expense the cost of advertising as incurred. Advertising expense for the three and six months ended June 30, 2024 and 2023 amounted to $ 9,426 and $15,403, respectively, and $6,123 and $12,243, respectively.

Earnings (Loss) Per Share

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

For the first quarter 2024, certain options and warrants were in-the-money and others were not. For other periods presented, the six months ended June 30, 2024 and the three and six months ended 2023, we have outstanding warrants and stock options which have not been included in the calculation of diluted net loss per share because to do so would be anti-dilutive. The six months ended June 30, 2024 reported a net loss. For the first quarter and six months 2023, no options and warrants were in-the-money. Therefore, for the six months ended June 30,2024 and the three and six months ended June 30, 2023, the numerator and the denominator used in computing both basic and diluted net loss per share are the same.

Income Taxes

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

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.

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 June 30, 2024 and December 31, 2023, due to the uncertainty of our ability to realize future taxable income.

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

	June 30, 2024	December 31, 2023
Deferred tax assets		
Reserves and accruals not currently deductible for tax purposes	$ 105,879	$ 69,676
Amortizable assets	133,544	109,612
Net operating loss carryforwards	4,649,089	4,771,762
	4,888,512	4,951,050
Deferred tax liabilities		
Amortizable assets	(209,249)	(197,579)
Property and equipment	(214,390)	(214,698)
Net deferred tax assets	4,464,873	4,538,773
Valuation allowance	(4,464,873)	(4,538,773)
	$ -	$ -

As of June 30, 2024 and December 31, 2023, we had federal net operating loss carry forwards of approximately $ 15,477,000 and $15,972,479, respectively, which can be used to offset future federal income tax. A portion of the federal and state net operating loss carry forwards expire at various dates through 2040, and a portion of the net operating loss carry forwards have an indefinite carry forward period. We recorded a valuation allowance against all of our deferred tax assets as of both June 30, 2024, and December 31, 2023. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

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:

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Revenues				
Document Management	$ 1,859,088	$ 1,879,369	$ 3,679,508	$ 3,705,103
Document Conversion	2,782,505	2,379,061	5,469,169	4,740,160
Total revenues	$ 4,641,593	$ 4,258,430	$ 9,148,677	$ 8,445,263
Gross profit				
Document Management	$ 1,618,537	$ 1,536,385	$ 3,175,430	$ 3,053,746
Document Conversion	1,384,442	1,054,048	2,727,193	2,182,526
Total gross profit	$ 3,002,979	$ 2,590,433	$ 5,902,623	$ 5,236,272
Capital additions, net				
Document Management	$ 104,421	$ 96,209	$ 215,040	$ 212,250
Document Conversion	166,413	60,323	183,726	78,851
Total capital additions, net	$ 270,834	$ 156,532	$ 398,766	$ 291,101

	June 30, 2024	December 31, 2023
Goodwill		
Document Management	$ 3,989,645	$ 3,989,645
Document Conversion	1,800,176	1,800,176
Total goodwill	$ 5,789,821	$ 5,789,821

	June 30, 2024	December 31, 2023
Total assets		
Document Management	$ 9,594,575	$ 10,104,004

Document Conversion	9,268,149	8,922,256
Total assets	$ 18,862,724	$ 19,026,260

Statement of Cash Flows

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

Reclassifications

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

4. Intangible Assets, Net

At June 30, 2024, intangible assets consisted of the following:

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	$ 297,000	$ (91,617)	$ 205,383
Proprietary technology	10 years	861,000	(193,725)	667,275
Customer relationships	5-15 years	4,091,000	(1,309,475)	2,781,525
		$ 5,249,000	$ (1,594,817)	$ 3,654,183

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

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	$ 297,000	$ (76,767)	$ 220,233
Proprietary technology	10 years	861,000	(150,675)	710,325
Customer relationships	5-15 years	4,091,000	(1,112,220)	2,978,780
		$ 5,249,000	$ (1,339,662)	$ 3,909,338

Amortization expense for the three and six months ended June 30, 2024 and June 30, 2023, amounted to $ 127,578 and $255,155, respectively, and $127,577 and $255,154, respectively. The following table represents future amortization expense for intangible assets subject to amortization.

For the Twelve Months Ending June 30,	Amount
2024	$ 505,941
2025	431,441
2026	326,108
2027	319,316
2028	305,733
Thereafter	1,765,644
	$ 3,654,183

5. Fair Value Measurements

We paid our final earnout liability of $ 700,000 in January 2023 and as of June 30, 2024, there were no earnout liabilities remaining.

6. Property and Equipment

Property and equipment are comprised of the following:

	June 30, 2024	December 31, 2023
Computer hardware and purchased software	$ 1,633,177	$ 1,437,023
Leasehold improvements	395,919	395,919
Furniture and fixtures	324,296	324,296
	2,353,392	2,157,238
Less: accumulated depreciation	(1,354,116)	(1,232,981)
Property and equipment, net	$ 999,276	$ 924,257

Total depreciation expense on our property and equipment for the three and six months ended June 30, 2024 and 2023 amounted to $ 63,321 and $125,149, respectively, and $64,675 and $126,614, respectively.

7. Notes Payable – Unrelated Parties

Summary of Notes Payable to Unrelated Parties

The tables below summarize all notes payable at June 30, 2024 and December 31, 2023, respectively, with the exception of related party notes disclosed in Note 9 “Notes Payable - Related Parties.”

	June 30, 2024	December 31, 2023
Notes payable – “2022 Unrelated Notes”	$ 1,539,500	$ 2,364,500
Less unamortized debt issuance costs	(72,188)	(155,258)
Long-term portion of notes payable	$ 1,467,312	$ 2,209,242

Subordinated Notes Payable		Issue Date	Interest Rate	Interest Due	Principal Due
$	1,539,500	April 1, 2022	12%	Quarterly	December 31, 2025

Future minimum principal payments of the Notes Payable to Unrelated Parties are $ 1,539,500 as of June 30, 2026. As of June 30, 2024 and December 31, 2023, accrued interest for these notes payable with the exception of the related party notes in Note 8, “Notes Payable - Related Parties,” was $0. As of June 30, 2024 and December 31, 2023, unamortized deferred financing costs and unamortized debt discount were reflected within long term liabilities on the condensed consolidated balance sheets, netted with the corresponding notes payable balance.

With respect to all notes outstanding (other than the notes to related parties), interest expense, including the amortization of debt issuance costs and debt discount, for the three and six months ended June 30, 2024 and 2023 was $83,159 and $207,884, respectively, and $136,136 and $287,741, respectively.

8. Notes Payable - Related Parties

Summary of Notes Payable to Related Parties

The tables below summarize all notes payable to related parties at June 30, 2024 and December 31, 2023:

		June 30, 2024		December 31, 2023
Notes payable – “2022 Related Note”	$	600,000	$	600,000
Less unamortized debt issuance costs		(27,937)		(39,398)
Long-term portion of notes payable	$	572,063	$	560,602

Subordinated Notes Payable	Issue Date	Interest Rate	Interest Due	Principal Due
2022 Related Note	April 1, 2022	12%	Quarterly	December 31, 2025

Future minimum principal payments of the 2022 Notes to related parties are $ 600,000 as of June 30, 2026. As of June 30, 2024 and December 31, 2023, accrued interest for these notes payable – related parties was $0. As of June 30, 2024 and December 31, 2023, unamortized deferred financing costs and unamortized debt discount were reflected within long term liabilities on the condensed consolidated balance sheets, netted with the corresponding notes payable balance.

With respect to all notes payable – related parties outstanding, interest expense, including the amortization of debt issuance costs, for the three and six months ended June 30, 2024 and 2023 was $22,656 and $47,461, and $25,880 and $51,759, respectively.

9. Commitments and Contingencies

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

Operating Leases

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

Location	Square Feet		Monthly Rent	Lease Expiry
Columbus, OH	6,000	$	5,250	December 31, 2028
Madison Heights, MI	36,000	$	44,048	August 31, 2026
Sterling Heights, MI	37,000	$	21,692	April 30, 2028
Traverse City, MI	5,200	$	5,100	January 31, 2026
Temporary space				
Madison Heights, MI	3,200	$	1,605	month to month
Vehicles				
various	n/a	$	4,901	September 30, 2028

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

For the twelve months ending June 30,		Finance Leases		Operating Leases
2025	$	89,954	$	957,371
2026		89,954		936,852
2027		71,204		443,008
2028		63,855		311,010
2029		39,194		35,100
Thereafter		1,883		-
Less Imputed Interest		(70,554)		(288,511)
	$	285,490	$	2,394,830

The following table summarizes the components of lease expense:

For the three months ending June 30,	2024	2023

Finance lease expense:				
Amortization of ROU asset	$	18,186	$	8,252
Interest on lease liabilities		6,958		3,594
Operating lease expense		235,039		238,864
Short-term lease expense		4,814		4,814

For the six months ending June 30,		2024		2023
Finance lease expense:				
Amortization of ROU asset	$	34,954	$	14,959
Interest on lease liabilities		13,426		6,426
Operating lease expense		469,478		476,312
Short-term lease expense		9,627		9,627

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

For the six months ending June 30,		2024		2023
Cash paid for amounts included in the measurement of lease liabilities:				
Financing cash flows from finance leases (interest)	$	13,426	$	6,426
Financing cash flows from finance leases (principal)		29,668		12,312
Operating cash flows from operating leases		380,661		348,284
ROU assets obtained in exchange for new finance lease liabilities		89,289		30,879
Weighted average remaining lease term – finance leases		4.1 years		5.2 years
Weighted average remaining lease term – operating leases		3.1 years		4.0 years
Weighted average discount rate – finance leases		9.73%		8.25%
Weighted average discount rate – operating leases		6.95%		6.95%

10. Stockholders' Equity

Common Stock

As of June 30, 2024, 4,230,806 shares of common stock were issued and outstanding, 255,958 shares of common stock were reserved for issuance upon the exercise of outstanding warrants, 612,952 shares of common stock were reserved for issuance under our 2015 and 2025 Equity Incentive Plans, as amended (the "2015 Plan" and "2025 Plan"), and 150,000 shares were reserved for issuance under our 2023 Non-Employee Director Compensation Plan.

The following table describes the shares and warrants issued as part of our 2022 and 2020 private placements:

Issuance of Common Stock	Issue Date	Shares Issued		Price per share	Warrants Issued		Warrant Exercise Price		Warrant Fair Value
Private Placement 2022	April 1, 2022	1,242,588	$	4.62	124,258	$	4.62	$	3.91
Private Placement 2020	March 2, 2020	955,000	$	4.00	95,500	$	4.00	$	3.90

Amortization of the debt issuance costs for the Private Placement 2022 offering was recorded at $ 33,936 and $94,531 for the three and six months ended June 30, 2024, and at $6,224 and $17,290 for the three and six months ended June 30, 2023.

Warrants

The following sets forth the warrants to purchase our common stock that were outstanding as of June 30, 2024:

Warrants Outstanding		Warrant Exercise Price	Warranty Expiry
124,258	$	4.62	March 30, 2027
95,500	$	4.00	March 30, 2027
16,000	$	9.00	March 30, 2027
17,200	$	12.50	March 30, 2027
3,000	$	15.00	March 30, 2027

11. Stock-Based Compensation

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

Restricted Stock

On March 19, 2024, we granted 127,500 shares of restricted common stock to certain employees. The grants of restricted common stock were made in accordance with the 2015 Plan and were subject to vesting, as follows: 42,495 shares vested on March 19, 2024; 42,495 shares vest on April 2, 2025, and 42,510 shares vest on April 2, 2026. As of April 2, 2024, 10,315 shares, representing an amount of $69,525, were cancelled as part of a cashless grant, in accordance with the 2015 Plan, resulting in a net of 32,180 shares vested. Stock compensation of $136,018 and $533,919 was recorded on the issuance of the common stock for the three and six months ended June 30, 2024 respectively.

Stock Options

We did not make any stock option grants during the six months ended June 30, 2024 or 2023.

A summary of stock option activity during the six months ended June 30, 2024 and 2023 is as follows:

	Shares	Weighted-Average	Weighted-Average Remaining	Aggregate

	Under Option	Exercise Price	Contractual Life	Intrinsic Value
Outstanding at January 1, 2024	357,887	$ 5.69	8 years	$ -
Forfeited	(4,000)	4.63		
Outstanding at June 30, 2024	353,887	$ 5.07	7 years	$ -
Exercisable at June 30, 2024	256,138	$ 5.75	7 years	$ -

	Shares Under Option	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2023	365,447	$ 5.89	8 years	$ 19,200
Forfeited	(5,000)	4.00		
Outstanding at June 30, 2023	360,447	$ 5.92	8 years	$ 19,200
Exercisable at June 30, 2023	165,654	$ 6.32	7 years	$ 19,200

During the three and six months ended June 30, 2024 and 2023, stock-based compensation for options was $ 115,456 and $230,912, and $115,456 and $233,618, respectively.

As of June 30, 2024 and December 31, 2023, there were $ 317,069 and $547,981, 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 one year. The total fair value of stock options that vested during the six months ended June 30, 2024 and 2023 was $379,985 and $390,221, respectively.

12. Concentrations

Revenues from a limited number of customers have accounted for a substantial percentage of our total revenues. During the three months ended June 30, 2024 and 2023, our largest customer, the State of Michigan, accounted for 41% and 36%, respectively, of our total revenues. During the six months ended June 30, 2024 and 2023, our largest customer, the State of Michigan, accounted for 45% and 35%, respectively, of our total revenues.

For the three months ended June 30, 2024 and 2023, government contracts, including K-12 education, represented approximately 87% and 79%, respectively, of our net revenues. For the six months ended June 30, 2024 and 2023, government contracts, including K-12 education, represented approximately 87% and 76%, respectively, of our net revenues. A significant portion of our sales to resellers represent ultimate sales to government or K-12 education.

As of June 30, 2024 and 2023, accounts receivable concentrations from our largest customer was 62% of our gross accounts receivable for each period.

13. Subsequent Events

Transfer of 2022 Notes

Effective July 19, 2024, a holder of our 2022 Unrelated Notes sold notes totaling $ 250,000 to related parties, including Robert F. Taglich and Michael N. Taglich, each beneficial owners of more than 5% of our common stock. This results in a reclassification of $ 250,000 from unrelated notes to related notes. There was no fee or premium or discount on the transaction. Additionally, all loan terms and the effective interest rate of the note remain unchanged. Robert F. Taglich and Michael N. Taglich are both principals of Taglich Brothers, Inc., and Michael N. Taglich is chairman of the board of directors of Intellinetics.

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

The following discussion and analysis of our financial conditions and results of operations should be read together with our condensed consolidated financial statements and notes thereto included in Part I, Item 1, "*Financial Statements*," of this Quarterly Report on Form 10-Q, and with the condensed consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods. Any forward-looking statements in this discussion and analysis should be read in conjunction with the information set forth in "Note Regarding Forward-Looking Statements" elsewhere herein. In this Quarterly Report, we sometimes refer to the three and six-month periods ended June 30, 2024 as the second quarter 2024 and the six-month period 2024 respectively, and to the three and six-month periods ended June 30, 2023 as the second quarter 2023 and the six-month period 2023.

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. Our digital transformation products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as micrographics conversions and 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 Corespace, 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.

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

How We Evaluate our Business Performance and Opportunities

There has been no material change during the six-month period 2024 to the major qualitative and quantitative factors we consider in the evaluation of our operating results as set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — *How We Evaluate our Business Performance and Opportunities*" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Executive Overview of Results

Revenues were up for the second quarter and six-month period 2024 by $383,163, or 9.0%, and $703,414, or 8.3%, respectively, primarily driven by software as a service and professional services more than offsetting expected weakness in storage and retrieval and sales of direct premise software. In expenses, for the six-month period 2024 we recorded $533,919 in stock compensation expense related to our restricted stock awards to employees, without which our operating expenses (excluding cost of revenues) would have increased 12.4% year over year, instead of 23.8%.

Below are our key financial results for the second quarter 2024 (consolidated unless otherwise noted):

- Revenues were $4,641,593, representing revenue growth of 9.0% year over year.
- Cost of revenues was $1,638,614, a decrease of 1.8% year over year.
- Operating expenses (excluding cost of revenues) were $2,830,873, an increase of 23.4% year over year. This amount includes a 2024 stock compensation expense of $136,018 related to restricted stock awards to employees.
- Income from operations was $172,106, compared to $296,388 in second quarter 2023.
- Net income was $75,050 with basic and diluted net income per share of $0.02, compared to net income of $135,734 in second quarter 2023.
- Operating cash generated was $1,107,089, compared to operating cash used of $125,274 in second quarter 2023.
- Investing activities, including both capitalization of internal use software and purchases of property and equipment, were $270,834, compared to $156,532 in second quarter 2023.

Below are our key financial results for the six-month period 2024 (consolidated unless otherwise noted):

- Revenues were $9,148,677, representing revenue growth of 8.3% year over year.
- Cost of revenues was $3,246,054, an increase of 1.2% year over year.
- Operating expenses (excluding cost of revenues) were $5,764,997, an increase of 23.8% year over year. This amount includes a 2024 stock compensation expense of $533,919 related to restricted stock awards to employees.

- Income from operations was $137,626, compared to $580,387 for the six-month period 2023.
- Net loss was $99,664 with basic and diluted net loss per share of $0.02, compared to net income of $248,297 with basic and diluted net income per share of $0.06 for the six-month period 2023.
- Net cash provided by operating activities was $1,718,855, compared to net cash used by operating activities of $299,631 for the six-month period 2023.
- Investing activities, including both capitalization of internal use software and purchases of property and equipment, were $398,766, compared to $291,101 for the six-month period 2023.
- As of June 30, 2024, we had 189 employees, including 38 part-time employees, compared to 170 employees, including 26 part-time employees, as of June 30, 2023.

Financial Impact of Current Economic Conditions

Our overall performance depends on economic conditions, and our continuing growth will be due in part to continued recovery and growth in the US economy and continued stability of state and local governmental spending in the US. Our performance will also continue to be affected by the recent inflationary environment, increased interest rates, and slowing-to-modest global growth rates.

Employee wages, our largest expense, have recently increased due to wage inflation. These increased labor costs have been mitigated by appropriately increasing customer renewal rates whenever we have the contractual ability to do so, as well as improved margins from growth in the software as a service revenue line. 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. Any macroeconomic downturn could affect our customers' and potential customers' budgets for technology procurement. However, absent economic disruptions, and based on the current trend of our business operations and our continued focus on strategic initiatives to grow our customer base, we believe in the strength of our brand and that our focus on our strategic priorities will deliver consistent growth.

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

Our operating results have fluctuated significantly in the past and are expected to continue to fluctuate in the future due to a variety of factors, in addition to economic conditions, that are discussed in Part II, Item 7, "*Management's Discussion and Analysis of Financial Condition and Results of Operations - Uncertainties, Trends, and Risks that can cause Fluctuations in our Operating Results*" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. Due to all these factors and the other risks discussed Part I, Item IA, "*Risk Factors*" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, and Part II, Item IA, *"Risk Factors"* of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024, our past results of operations should not be relied upon as an indication of our future performance. Comparisons of our operating results with prior periods is not necessarily meaningful or indicative of future performance.

Reportable Segments

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

Results of Operations

Revenues

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

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Revenues by segment				
Document Management	$ 1,859,088	$ 1,879,369	$ 3,679,508	$ 3,705,103
Document Conversion	2,782,505	2,379,061	5,469,169	4,740,160
Total revenues	$ 4,641,593	$ 4,258,430	$ 9,148,677	$ 8,445,263
Gross profit by segment				
Document Management	$ 1,618,537	$ 1,536,385	$ 3,175,430	$ 3,053,746
Document Conversion	1,384,442	1,054,048	2,727,193	2,182,526
Total gross profit	$ 3,002,979	$ 2,590,433	$ 5,902,623	$ 5,236,272

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Revenues:				
Sale of software	$ 14,933	$ 63,646	$ 20,712	$ 78,939
Software as a service	1,400,591	1,277,918	2,805,744	2,516,350
Software maintenance services	353,966	349,139	711,949	698,681
Professional services	2,662,358	2,298,316	5,142,036	4,597,605
Storage and retrieval services	209,745	269,411	468,236	553,688
Total revenues	$ 4,641,593	$ 4,258,430	$ 9,148,677	$ 8,445,263

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Document management segment revenues:				
Sale of software	$ 14,933	$ 63,646	$ 20,712	$ 78,939
Software as a service	1,400,591	1,277,918	2,805,744	2,516,350
Software maintenance services	353,966	349,139	711,949	698,681
Professional services	89,598	188,666	141,103	411,133
Total document management segment revenues	$ 1,859,088	$ 1,879,369	$ 3,679,508	$ 3,705,103

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Document conversion segment revenues:				
Professional services	$ 2,572,760	$ 2,109,650	$ 5,000,933	$ 4,186,472
Storage and retrieval services	209,745	269,411	468,236	553,688
Total document conversion segment revenues	$ 2,782,505	$ 2,379,061	$ 5,469,169	$ 4,740,160

Revenues were up for the second quarter and six-month period 2024 by $383,163, or 9.0%, and $703,414, or 8.3%, respectively, primarily driven by software as a service and professional services in the Document Conversion segment more than offsetting expected weakness in storage and retrieval and sales of direct premise software.

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 $122,673, or 9.6%, in the second quarter 2024 compared to the second quarter 2023 and increased by $289,394, or 11.5% in the six-month period 2024 compared to the six-month period 2023. This increase was primarily the result of new cloud-based solution sales, primarily our IntelliCloud Payables Automation Solution, as well as expanded data storage, user seats, and hosting fees for existing customers.

Professional Services Revenues

Professional services revenues primarily consist of revenues from document scanning and conversion services, plus consulting, discovery, training, and advisory services to assist customers with document management needs. These revenues include arrangements that do not involve the sale of software. Of our professional services revenues during the second quarter 2024 and six-month period 2024, $2,572,760 and $5,000,933, respectively, were derived from our Document Conversion operations and $89,598 and $141,103, respectively, were derived from our Document Management operations. Our overall professional services revenues increased by $364,042, or 15.8%, in the second quarter 2024 compared to the second quarter 2023 and increased by $544,431, or 11.8%, in the six-month period 2024 compared to the six-month period 2023. This increase is the result of a strong pipeline in our Document Conversion segment, along with realized price increases in late 2023. However, we believe that our largest customer intends to renegotiate, and accordingly reduce, our pricing on a significant portion of our work for this customer, which could have a significant adverse impact on our future professional services revenues as well as our overall revenues, margins, net income and cash flows beginning near the end of this year.

Costs of Revenues and Gross Profits

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

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Cost of revenues by segment				
Document Management	$ 240,551	$ 342,984	$ 504,078	$ 651,357
Document Conversion	1,398,063	1,325,013	2,741,976	2,557,634
Total cost of revenues	$ 1,638,614	$ 1,667,997	$ 3,246,054	$ 3,208,991

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

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Cost of revenues:				
Sale of software	$ 1,125	$ 7,344	$ 6,190	$ 15,525
Software as a service	217,586	258,382	433,578	479,022
Software maintenance services	13,364	15,117	29,074	31,833
Professional services	1,344,541	1,307,341	2,628,604	2,494,457
Storage and retrieval services	61,998	79,813	148,608	188,154
Total cost of revenues	$ 1,638,614	$ 1,667,997	$ 3,246,054	$ 3,208,991

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

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Document management segment cost of revenues:				
Sale of software	$ 1,125	$ 7,344	$ 6,190	$ 15,525
Software as a service	217,586	258,382	433,578	479,022
Software maintenance services	13,364	15,117	29,074	31,833
Professional services	8,076	62,991	35,236	124,977
Total document management segment cost of revenues	$ 240,151	$ 343,834	$ 504,078	$ 651,357

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Document conversion segment cost of revenues:				
Professional services	$ 1,336,465	$ 1,244,350	$ 2,593,368	$ 2,369,480
Storage and retrieval services	61,998	79,813	148,608	188,154
Total document conversion segment cost of revenues	$ 1,398,463	$ 1,324,163	$ 2,741,976	$ 2,557,634

Our total cost of revenues during the second quarter 2024 decreased by $29,383, or 1.8%, over second quarter 2023 and increased by $37,063, or 1.2%, during the six-month period 2024 over the six-month period 2023. Our cost of revenues for our Document Management segment decreased by $103,683, or 30.2%, in the second quarter 2024 compared to the second quarter 2023 and decreased $147,279, or 22.6%, in the six-month period 2024 compared to the six-month period 2023 due to scale, efficiencies, and low support demands. Our cost of revenues for our Document Conversion segment increased by $74,300, or 5.6%, in the second quarter 2024 compared to the second quarter 2023 and increased by $184,342, or 7.2%, during the six-month period 2024 compared to the six-month period 2023 primarily due to the staffing ramp up to accommodate more work volume.

	For the three months ended June 30,		For the six months ended June 30,	
	2024	2023	2024	2023
Gross profit:				
Sale of software	$ 13,808	$ 56,302	$ 14,522	$ 63,414
Software as a service	1,183,005	1,019,536	2,372,166	2,037,328
Software maintenance services	340,602	334,022	682,875	666,848
Professional services	1,317,817	990,975	2,513,432	2,103,148
Storage and retrieval services	147,747	189,598	319,628	365,534
Total gross profit	$ 3,002,979	$ 2,590,433	$ 5,902,623	$ 5,236,272
Gross profit percentage:				
Sale of software	92.5%	88.5%	70.1%	80.3%
Software as a service	84.5%	79.8%	84.5%	81.0%
Software maintenance services	96.2%	95.7%	95.9%	95.4%
Professional services	49.5%	43.1%	48.9%	45.7%
Storage and retrieval services	70.4%	70.4%	68.3%	66.0%
Total gross profit percentage	64.7%	60.8%	64.5%	62.0%

Our overall gross profit increased to 64.7% in the second quarter 2024 from 60.8% in the second quarter 2023 and increased to 64.5% during the six-month period 2024 from 62.0% for the six-month period 2023. The mix of revenues by source was relatively stable; the professional services gross profit margins benefited from stable wages, price increase impact year over year, and a favorable comparison in the Document Conversion segment against weaker margin projects in 2023.

Cost of Software as a Service

Cost of software as a service, or SaaS, consists primarily of technical support personnel, hosting services, and related costs. Cost of software as a service during the second quarter 2024 decreased by $40,796, or 15.8%, from the second quarter 2023 and decreased by $45,444, or 9.5%, during the six-month period 2024 from the six-month period 2023. This decrease in the cost of SaaS was due to increased staffing allocations in 2023, affecting that quarter and six-month period. Gross profit in 2024 returned to more historical levels, improving slightly on those, where our gross margin in the second quarter 2024 increased to 84.5% compared to 79.8% in the second quarter 2023 and to 84.5% in the six-month period 2023 compared to 81.0% during the six-month period 2023.

Cost of Professional Services

Cost of professional services consists primarily of compensation for employees performing the document conversion services, compensation of our software engineers and implementation consultants and related third-party costs. Cost of professional services during the second quarter 2024 increased by $37,200, or 2.8%, over the second quarter 2023 and increased in the six-month period 2024 by $134,147, or 5.4%, over the six-month period 2023. The growth in cost of sales was less than the growth in revenues due to stabilization of wages, price increases, and favorable project profitability year over year in our Document Conversion segment. Gross margins related to consulting services in Document Management and digital transformation services in Document Conversion may vary widely, depending upon the nature of the project and the amount of labor required to complete a project. Our gross margins in professional services increased to 49.5% in the second quarter 2024 compared to 43.1% in the second quarter 2023 and increased to 48.9% during the six-month period 2024 compared to 45.7% in the six-month period 2023.

Operating Expenses

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2024	2023	2024	2023
Operating expenses:				
General and administrative	$ 2,025,796	$ 1,561,939	$ 4,154,289	$ 3,116,550
Sales and marketing	530,439	492,303	1,072,060	1,071,814
Depreciation and amortization	274,638	239,803	538,648	467,521
Total operating expenses	$ 2,830,873	$ 2,294,045	$ 5,764,997	$ 4,655,885

General and Administrative Expenses

General and administrative expenses during the second quarter 2024 increased by $463,857, or 29.7%, over the second quarter 2023, and increased in the six-month period 2024 by $1,037,739, or 33.3%, over the six-month period 2023, primarily related to $136,018 and $533,919 in expense related to our restricted stock award grant to employees in the second quarter and six-month period 2024, respectively. Excluding the restricted stock award expense, total expenses increased by $503,820, or 16.2% in the six-month period 2024 over 2023, related to investments made in order to scale, such as development, finance, and our SOC2 process, as well as wage increases. This was primarily reflected in our Document Management segment, in which, including the restricted stock grant expense, our general and administrative expenses increased to $1,204,509 and $2,349,541 in the second quarter 2024 and the six-month period 2024, respectively, from $794,718 and $1,597,846 in the second quarter 2023 and the six-month period 2023, respectively. In our Document Conversion segment, our general and administrative expenses increased to $821,287 in the second quarter 2024 compared to $767,221 in the second quarter 2023, and increased to $1,804,748 in the six-month period 2024 compared to $1,518,704 in the six-month period 2023.

Sales and Marketing Expenses

Sales and marketing expenses during the second quarter 2024 increased by $38,136, or 7.7%, from the second quarter 2023 and increased by $246, or 0.0%, during the six-month period 2024 over the six-month period 2023. The second quarter increase more appropriately reflects our investments in sales and marketing, including an open sales rep position filled.

Depreciation and Amortization

Depreciation and amortization during the second quarter 2024 increased by $34,835, or 14.5%, over the second quarter 2023 and increased by $71,127, or 15.2%, during the six-month period 2024 over the six-month period 2023, primarily as a result of increased amortization of capitalized software costs.

Other Items of Income and Expense

Interest Expense, Net

Interest expense decreased by $63,598, or 39.6%, in the second quarter 2024 as compared to the second quarter 2023, and decreased by $94,800, or 28.5% during the six-month period 2024 as compared to the six-month period 2023. The decrease resulted from reduced interest resulting from principal repayments as follows: the 2020 Notes on February 28, 2023 and August 31, 2023, and the 2022 Notes principal repayment of $500,000 on March 30, 2024. The 2022 Notes principal prepayment of $325,000 on June 30, 2024 had a negligible impact on interest expense in the six-month period 2024.

Liquidity and Capital Resources

We have financed our operations primarily through a combination of cash on hand, cash generated from operations, borrowings from third parties and related parties, and proceeds from private sales of equity. Since 2012, we have raised a net total of approximately $23.7 million in cash through issuances of debt and equity securities, net of $2.8 million in debt repayments. As of June 30, 2024, we had approximately $1.7 million in cash and cash equivalents, net working capital of $0.5 million, and an accumulated deficit of $21.2 million. In March and June 2024, we prepaid $0.5 million and $0.35 million in principal of the 2022 Notes, respectively.

In 2024 and 2023, we engaged in several actions that significantly improved our liquidity and cash flows, including (i) effective October 1, 2023 through September 30, 2024, securing a renewal contract with our largest customer, containing an estimated net rate increase for all non-fixed pricing projects of approximately 21%, compared to the current rates in effect for the contract period commencing June 1, 2018, and (ii) on March 13, 2024, we agreed with the note holders to amend the Unrelated Notes and Related Notes to extend the maturity date to December 31, 2025, for the remaining $1,539,500 in 2022 Unrelated Notes and all $600,000 of the 2022 Related Notes. However, we believe that our largest customer intends to renegotiate our pricing on a significant portion of our work for this customer, which could have an adverse impact on our overall revenues, cash flows, liquidity and capital resources.

Our existing debt as of June 30, 2024 is comprised of approximately $2.1 million due December 31, 2025. Our operating cash flow alone may be insufficient to meet the debt obligations in full in 2025. 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 and successfully retaining and growing our client base in the midst of continuing global inflation and generally slow economic growth.

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

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

Indebtedness

As of June 30, 2024, our outstanding long-term indebtedness consisted of the 2022 Notes issued to accredited investors on April 1, 2022, with an aggregate outstanding principal balance of $2,139,500 and accrued interest of $0.

See Note 7 and Note 8 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report for further information on the 2022 notes.

Capital Expenditures

There were no material commitments for capital expenditures at June 30, 2024.

Cash Provided by and Used in Operating Activities

Net cash provided by operating activities during the six-month period 2024 was $1,718,855, primarily attributable to the net income adjusted for non-cash expenses of $1,363,842, a decrease in operating assets of $286,249 and an increase in operating liabilities of $168,428. Net cash used in operating activities during the six-month period 2023 was 299,631, primarily attributable to the net income adjusted for non-cash expenses of $856,555, an increase in operating assets of $702,381 and a decrease in operating liabilities of $702,102.

Cash Used in Investing Activities

Net cash used in investing activities in the six-month period 2024 was $398,766, including $198,051 in capitalized software. Net cash used in investing activities in the six-month period 2023 was $291,101, including $208,417 in capitalized software.

Cash Used in Financing Activities

Net cash used by financing activities during the six-month period 2024 amounted to $825,000 in repayment of notes payable, and $29,668 in the principal portion of a finance lease liability. Net cash used by financing activities during the six-month period 2023 amounted to $700,000 in earnout liability payments, $262,950 in repayment of notes payable, and $12,312 in the principal portion of a finance lease liability.

Critical Accounting Policies and Estimates

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

Our critical accounting policies and estimates are set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023. There were no material changes to our critical accounting policies and estimates during the second quarter 2024.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

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

Based on this evaluation, we concluded that, as of June 30, 2024, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Changes in Internal Control Over Financial Reporting

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

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

PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 1A. RISK FACTORS.

Our business and operating results are subject to many risks, uncertainties and other factors. If any of these risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. There have been no material changes to the risk factors set forth in Part I, Item 1A, "*Risk Factors*," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, except as set forth in Part II, Item IA, "Risk Factors," of our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2024.

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

None.

ITEM 3. DEFAULT UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

ITEM 5. OTHER INFORMATION.

During the second fiscal quarter ended June 30, 2024, no Section 16 director or officer adopted, modified, or terminated a "Rule 10b5-1 trading arrangement" (as defined in Item 408 of Regulation S-K of the Exchange Act).

There were no "non-Rule 10b5-1 trading arrangements" (as defined in Item 408 of Regulation S-K of the Exchange Act) adopted, modified, or terminated during the fiscal quarter ended June 30, 2024, by our directors and Section 16 officers.

ITEM 6. EXHIBITS.

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

Incorporation by reference

Exhibit No.	Description of Exhibit	Form	Date	Exhibit
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.			
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.			
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.			
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.			
101.INS*	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.).			
101.SCH*	XBRL Taxonomy Schema.			
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.			
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.			
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.			
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.			
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)			

* Filed herewith.

SIGNATURES

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

INTELLINETICS, INC.

Dated: August 13, 2024

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

Dated: August 13, 2024

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

Exhibit 31.1

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

I, James F. DeSocio, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intellinetics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2024

By: *\/s/ James F. DeSocio*

President and Chief Executive Officer

Exhibit 31.2

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

I, Joseph D. Spain, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Intellinetics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 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 Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. DeSocio, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: August 13, 2024

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

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

Exhibit 32.2

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

In connection with the Quarterly Report of Intellinetics, Inc. (the “Company”) on Form 10-Q for the quarter ended June 30, 2024, 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: August 13, 2024

/s/ Joseph D. Spain
Chief Financial Officer

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