

**INTELLICHECK**  
**Second Quarter 2018 Earnings Call**  
**August 14, 2018**  
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Operator: Greetings, and welcome to the Intellicheck Second Quarter 2018 Earnings Call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press \*0 on your telephone keypad. As a reminder, this conference is being recorded. I would not like to turn the conference over to your host today, Mr. Gar Jackson, Investor Relations. Please proceed.

Gar Jackson: Good afternoon and thank you for joining us today for the Intellicheck Second Quarter 2018 Earnings Call. Before we get started, I will take a few minutes to read the forward-looking statement. Certain statements in this conference call constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. When using this conference call, words such as will, believe, expect, anticipate,

encourage and similar expressions as they relate to the company or its management as well as assumptions made by and information currently available to the company's management identified forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances. And the company undertakes no obligation to and expressly disclaims any obligation to update or alter its forward-looking statements, whether resulting from such changes, new information, subsequent events or otherwise. Additional information concerning forward looking statements is contained under the headings of Safe Harbor statement and risk factors listed from time to time in company's filings with the Securities and Exchange Commission. Statements made on today's call or as of today, August 14, 2018. Management will use the term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further definition, reconciliation and context for the use of this term.

We'll begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer and then Bill White, Intellicheck's Chief Financial Officer who will discuss the Q2 financial results. Following their prepared remarks, we will take questions from our analysts and institutional investors. Today's call will be limited to one hour, and I will now turn the call over to Bryan.

Bryan Lewis: Thank you, Gar. Good afternoon and thank you all for joining us today. I've been at Intellicheck for about six months now, and just as I started the call last time, I would like to reiterate that I continue to be excited about what we are doing on multiple fronts here at Intellicheck each day. Our core technology, authenticating Government issued ID's is proven to be the most vital step in combating identify fraud, under age use of age restricted products and in helping law enforcement do their jobs.

As you know, we received an important independent endorsement of our product accuracy with the recent announcement by the New York DMV that they ran 1,000 fake ID's through our core authentication technology, and we caught all 1,000. We say we are 99.9 percent accurate, but in this case, we were batting 1000.

As I said last call, we believe that the market is truly coming our way, and I'm going to start by talking about why and the context of the two verticals that we fell into. Consumer transaction space and the law space.

I will start with the consumer space. Specifically, retail. Where we believe we have the most immediate revenue opportunity. One must only read the news and on any given day you will see an article or research report detailing how identity theft and the creation of synthetic identities is costing billions of dollars a year and is taking countless hours for victims to clear

their records. For those of you who don't know, synthetic identities are created when a criminal combine typically stolen real information about individuals--think the Equifax breach--to create identities that are then used to open fraudulent accounts. Take a moment to think about the frequency of announced data breaches, and you will quickly understand the severity of the situation.

For example, in the second quarter of this year nine of the largest breaches in the U.S. led to 681 million records being stolen. Additionally, 15 of the top retailers in the country were hacked so far in 2018. This is in addition to the more than 145 million names, social security numbers and dates of birth that were breached at Equifax last year. The amount of data stolen and available on each of us makes it far too easy for criminals to steal our identities. Combine the availability of this information with the simplicity of obtaining a fake ID that looks real and coordinates perfectly with the stolen information, and you have a severe problem that costs retailers, consumers and banks billions annually. This is where retail ID provides a simple and effective solution. We authenticate the ID at the beginning of the transaction. We stopped fraud before it starts.

Let's put a number to the size of this fraud, and then we see the impact of all of these breaches. Javelin Strategy and Research puts the total value of identity theft at nearly \$17 billion in 2017. What scares me the most, though, is the Accenture study that found that the time from data

breach to when the data is used for fraud is 12 to 18 months. The drogue of data in hackers' hands from the Equifax breach alone should be hitting the market for the holiday shopping season. And the amount of records breached already this year suggests there is no end in sight. The good news is that Intellicheck retail ID solutions stop this fraud in store at the point of sale, online and on mobile devices. We do it by integrating with the retailer's existing hardware making it a simple and low-cost solution.

With that in mind, lets' talk about what we did for our clients in Q2. If you remember from the last call, we polled our clients to ask them how much this fraud cost them per transaction before they installed retail ID. Department stores averaged \$2100 per fraudulent transaction. Tool and equipment store averaged \$2569. Furniture and home furnishing stores average loss was \$2908. And jewelry stores topped the average losses at \$3574 per transaction. We looked at a sampling of 17 of our clients across these client types for Q2 2018. Based on catching fake ID's and stopping transactions before they started, we estimated that retail ID stopped just over 29,000 transactions that we project resulted in just over \$62 million in savings. These numbers service well as we speak to prospective clients looking for a solution to combat fraud in their businesses. WE stop fraud before it starts. Ultimately, what is most important is that these statistics show that retail ID works.

Quarter over quarter usage shows increasing momentum. We did 3,800 percent more scans to authenticate ID's in a retail use case in Q2 2018 than we did in Q2 2017. With these numbers in mind, let me reiterate an important point that is key to viewing the competitive marketplace as a whole. A key competitive advantage is that our SAS products typically do not require a hardware investment as a biometric solution would. The simplicity of our solution is an important competitive strength. Our retail ID technology works with two things that already exist. One you carry with you in your wallet and the other is a store's existing point of sale online or mobile device selling channels. Retail ID is easy to implement and frictionless to the consumer. It is not unfamiliar and the outputting because we were all used to providing a license to prove our identity. With retail ID, we authenticate the ID to stop crime and protect the consumer, the retailer and the credit card company. WE effectively stop fraud before it starts.

Turning now to the changes I initiated when I started at Intellicheck about six months ago. WE have made several revisions to how we sell retail ID. In evaluating our key verticals, it was apparent that banks and retailers typically have a few primary use cases for retail ID. These include new account acquisition such as credit card applications and loyalty programs, account look up for card not present transactions, non-receipted merchandise returns and Omni Channel transactions including buy online and pick up in store. Surprisingly, some clients simply want a parceling solution to read the barcode and automatically prefill a form or application

with the data but are not interested in authenticating it. With this understanding, we refocused our approach and are selling solutions for each use case. To bring greater clarity, here are two examples of clients we are bringing on board with one of our primary use case pricing models.

The first is a 3000 plus location in North America retailer whose credit card issuers are issued by a card issuer we are not working with yet. This client wanted to enhance the customer experience by speeding up the credit application process. They wanted the data parsed and the form filled out. They did not care to pay for authentication because they do not bear the cost of new account fraud. The card issuer does. We will track how often the ID use is fraudulent. This retailer's bank will be monitoring this with us and given the fraud at comparable companies, we believe we should easily prove the ROI to the bank and sign them up for use cases at their other retailers where they bear the cost of fraud. Part of our reinvigorated sales process now focuses on the pain point of who ultimately eats the cost of fraud. This is the group most incentivized to pay for this service.

An additional example is a 1000 location retailer that will be paying for the use case of non-receipted returns, a use case where they eat the loss. This is our first major player to purchase a fraud use case solution where the retailer bears the entire cost of the fraud. Again, the retailer has the pain point and wants to stop the fraud before it starts.

I want to be clear that single use cases sell at a discount to full authentication or all use cases, but we believe it brings significant upsell opportunities within the retailer and cross sell to the credit card issuers.

Another important change we have recently made to how we sell retail ID is the pricing model for credit card issuers. For credit card issuers, we are offering a transactional or per scan model. We believe this will generate more revenue for the company as in the past. Some clients are hesitant to install retail ID in what they termed low fraud stores. And as I have mentioned, our scan volumes have gone up tremendously. We have come to commercial terms with one major credit card issuer, and we are negotiating their renewal contract converting to this model for their January 2019 renewal. The advantage of this transactional model is that it's able to be rolled out with all stores, including those with low volume.

Moving to the law vertical, we are seeing a significant growth in interest based on the press release we shared with you that was issued by New York Governor Cuomo regarding the New York DMV using law ID. It lends important credence when the Governor of a significant state offers unequivocal validation that was strongly reinforced with the DMV stating that law ID caught all 1000 fake ID's that were tested. This generated a surge of press coverage and an influx of requests to learn more about our state-of-the-art solutions from law enforcement

agencies and sellers of age restricted products from across the nation. In addition to appearing in more than 100 articles, I've been interviewed by a number of broadcasts organizations offering further opportunity to showcase law ID and age ID.

We are going to continue to capitalize on this and the changes we have implemented to the structure of our sales force we believe will make this happen. Most recently we have completed an initial build of an inside sales team. This new organisational approach will help us with inbound calls as well as lead generation for the entire sales team.

Looking at the current switch connectivity status, we have to switch connections completed in six states that include New York, Massachusetts, Delaware, Virginia, Tennessee and Mississippi. In addition, South Carolina has finally cleared us to proceed with a connection to that state, and we have pilots underway or scheduled in each of the aforementioned states. Feedback on the pilots has been extremely positive, although I want to be clear that the initial pilots have been with smaller agencies. Several of these agencies have signed up or have told us they are in the process of generating a purchase order. To date, sales are small, but we continue to aggressively pursue opportunities. In the coming weeks there were several large-scale pilots due to commence.

In the states where we do not have the switch activated, we are selling age ID to the ABC enforcement agencies and police departments. Currently, 37 enforcement and compliance agencies in 19 states have deployed age ID. Keeping age restricted products out of the hands of minors remains a complex and challenging problem for retailers and enforcement agencies. This has become more apparent with the growing use and abuse of vaping products. Again, against the background of sophisticated fake ID's that are so easily and inexpensively available. This underscores the challenges for law enforcement and retail and at the same time demonstrates the importance of our solutions and the success we are having here. We believe that by arming law enforcement with the tools to crack down on fake ID's also serves to provide incentives for bars and restaurants and other retail outlets to utilize the same tools to prevent the use of fake ID's in their establishments.

We remain confident that the market is coming our way. Virtually every day you read about another breach. Retailers and banks know they need to protect themselves and the consumer and we have the data to prove we do that just with a reference client to back us up with what we say. We believe that our continuing press coverage and the validation of our products should help us open new doors and speed up adoption. The changes we have made to our sales team, process and products are all showing results. I continue to stand by my initial assessment of Intellicheck at the time when we first spoke. In conclusion, I remain excited an

energized by the opportunities ahead and what I believe is a right future for this innovative company.

I will now turn the call over to our CFO, Bill White, to discuss our second quarter financial results.

Bill White: Thank you, Bryan. And a good day to our shareholders, guests and listeners. I'd like to discuss some of the financial information that was contained in our press release for the second quarter ended June 30, 2018, and we released a short while ago. We anticipate that our Form 10Q will be filed with the SEC later today.

I will begin with our second quarter results. Revenue for the second quarter ended June 30, 2018 grew 5 percent to \$1,100,000 versus 951,000 for the same period last year. Our software as a service revenue was \$625,000 for Q2 of '18 which increased 107 percent from approximately 302,000 for Q2 2017 and was a 5 percent sequential increase from approximately 595,000 in Q1 of 2018.

Gross profit as a percentage of revenue increased to 91.8 percent for the quarter ending June 30, 2018 compared to 78.5 percent for the quarter ended June 30, 2017 and 90.5 percent in the

prior sequential quarter. The increase in percentage is due to higher revenues in our SAS products and our product myths.

Operating expenses consist of selling general and administrative and research and development expenses increased by 12 percent of 216,000 to 2,063,000 for the three months ending June 30, 2018 versus 1,847,000 for the three months ending June 30, 2017. This increase was primarily driven by a higher headcount for our sales and development personnel and accelerated marketing and research and development expenses.

The company posted a net loss of \$1,100,000 for the three-month ending June 30, 2018 that was flat compared to a net loss of \$1,099,000 for the quarter ending June 30, 2017. The net loss for diluted share was 7 cents versus 10 cents in the prior period. Adjusted EBITDA for the quarter ending June 30, 2018 was negative 1,018,000 compared to negative 902,000 in the quarter ending June 30, 2017. A reconciliation of our adjusted EBITDA can be found in the tables of our earnings release issued today.

Interest and other income was negligible for the quarter ending June 30, 2018 and June 30, 2017.

I'd like to now focus on the company's liquidity and capital resources. As of June 30, 2018, the company had cash of 6.5 million, working capital defined as current assets minus current liabilities of 5.9 million, total assets of 16.3 million and stockholder's equity of 14.7 million. During the six months ending June 30, 2018, the company used net cash of \$1,548,000 compared to a net cash use of \$2,057,000 during the six months ending June 30, 2017. Net cash used in operating activities was \$2,127,000 for the six months period June 30, 2018 compared to \$2,211,000 for the same period in 2017. Net cash provided by investing activities of 6,000 for the six-month period ending June 30, 2017 and we generated cash of 688,000 from financing activities for the six months ending June 30, 2018 compared to 148,000 for the six months ending June 30, 2017.

We have a revolving credit facility with Northwest Bank that allows for a maximum borrowing of \$2 million in a secured by collateral accounts. The facility bears interest at Northwest Money Market rate plus 3 percent. As of today, there are no amounts outstanding under this facility. We currently anticipate there are available cash as well as expected cash from operations and available under the revolving credit facility will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

As of December 31, 2017, we had a net operating loss carried forward of approximately 11 million.

I'll now turn the call over to the operator who will take questions from our analysts and institutional investors. Operator?

Operator: Thank you. At this time, we will conduct a question and answer session. If you would like to ask a question, please press \*1 on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press \*2 if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the \* keys. Once again, that's \*1 at this time.

Our first question comes from Mike Rondo with Northland Capital. Please proceed with your question.

Mike: Hi. This is Mike [inaudible] for Mike Rondo. Thanks for taking our questions. Maybe just on the resaler channel for age ID, you had an announcement last month with the Massachusetts, maybe an early read on that and what that looks for more opportunities in that space?

Bryan Lewis: Hey, Mike. It's Bryan. How are you doing today? I'd say early days the resalers-- you know oftentimes it will take them a little bit to get up to speed. It's a lot of good

introduction. Also, a lot of good press that we plan on making use of with that inside sales team that is really helping the sales--the regular sales people to focus on larger deals and then I have you guys focusing on things like the age ID and again specifically in states where we've made an announcement.

Mike: Okay. And also, on the rest of the pipeline, the aforementioned bank partner and the large electronics retailer, is there any news there?

Bryan Lewis: What I'd say is that discussions are continuing. I'm optimistic. I'm not going to, you know, making any promises or put numbers out there. I'm an old sales dog at heart, and I hate to jinx things. But, we are making progress with these bank partners and the retailers that have been spoken to in the past. One of the things I think I said the last time is previously we've been selling this sort of through another channel. We are now in control and running it. So, I'm much more confident than I was previous to us being in control.

Mike: That's helpful. I think in the last call you mentioned the direct mail marketing for age ID. Is there any colors you can give us there on how that's doing?

Bryan Lewis: Yeah. It's just a very cheap method of hitting a lot of retailers right away. We see after we sent out a mailing a lot of people coming in to become a customer. I think we see that

a few times. One, when we do a mailing into a state. Two, whenever there is an announcement of any type. And three, what I'd say is the national coverage that we got from the New York DMV had people coming in from coast to coast looking for more information. So, I think that the more press we get about it the better name recognition that we get. Certainly, our search engine optimization has improved. We actually show up in some of these searches now. So, I think we're seeing benefit from all of that. And then, again, having this inside sales team to focus on it I think means that we're converting these guys faster.

Operator: Our next question comes from Tanner Hoban with Oppenheimer. Please proceed with your question.

Tanner Hoban: Hi, everyone. Thanks for taking my question. First of all, I just wondering if you can talk a little bit about this new purse scan model and how you expect this new pricing dynamic to impact some of your higher volume customers and if you anticipate any changes to your overall renewal rate. Any color on that would be fantastic. Thank you.

Bryan Lewis: Sure. What I can say is we are going through a renewal right now with this model where we've agreed to the purse scan minimums, the tiers for each of the scans. We've modeled it out. We believe it will be good for our bottom line and I think its part of what we're doing in terms of selling into different parts of the organization. One of the things that I talked

about in the past is depending who we sell to in the organization, they understand what they're getting from this product. In this case, we brought the fraud people started to take notice and they're like, yes, we need to renew. So, I think it's going to be very good for us.

Tanner Hoban: Thank you. Maybe next one is for Bill. Seems the total deferred revenue fell in the high teens on a year over year basis this quarter. Can you just help us understand this movement? Was there some form of a seasonality component to it? Maybe just a tough year over year comps? Thank you.

Bill White: Yeah, Tanner, as SAS becomes a higher percentage of our overall revenue, and our long-term contracts with the military are falling off, our deferred revenue is dropping. We're billing these SAS primarily--mostly on a monthly basis. So, we don't have the deferred revenue component like we have historically.

Tanner Hoban: Got you. That's very helpful. And, you know, could you touch on a little bit on the health of the overall pipeline and just the status of some of the deals in the past that have been delayed? I know Mike had touched on it a little bit before, but just some additional color and that would be very helpful.

Bryan Lewis: I'm very confident in the pipeline. What's being added to the pipeline. I continue to say that Paul and the new team are doing a very good job of not only adding to the pipeline but making sure that the ball is being moved down field on all of the clients--new prospective, is should say, that we had that seem to be a little bit stagnant. So, very confident, very pleased with what I'm seeing with the sales force restructure.

Tanner Hoban: Got you. And you led me to my question is just on the progress of the sales reorganization initiative. If you have any color on it in terms of when you think you could see some of your sales teams to begin to ramp, to a little bit more productive levels, any additional color on that would be very helpful.

Bryan Lewis: Yeah. I would say that the sales team that we have now, Paul and one of his sales people who have been here for a while, they are very up to speed. We're bringing people in and teaching them to sell maybe some--might be termed an easier product like age, but also it's not a huge learning curve to sell retail ID, especially with the numbers that we have to back things up and the reference clients that we can bring to bear with a prospect wants to really kick our tires and see if what we say is true. So, I would say that everybody is contributing. I'm always looking for sales people to contribute more. I think Paul would be laughing as I said this because I say it to him every day. But, like I said, I am very pleased, and we've got some good, strong clients in the pipeline that anyone of these banks represents fairly significant revenue.

Tanner Hoban: Thank you very much.

Operator: Once again, ladies and gentlemen, to ask a question please press \*1 on your telephone keypad. Our next question comes from Roger Liddell with Clear Harbor Asset Management. Please proceed with your question.

Roger Liddell: Thank you. Good afternoon, Bryan and Bill.

Brian Lewis: Hey, Roger.

Roger Liddell: I wanted to go back to the question Mike touched on at the beginning was Massachusetts's when the package stores association. In terms of the value proposition, there ought to be reduced exposure to liability with age ID in place. And even if you win the case, it's expensive and distracting. The new release doesn't touch on the issue of whether insurance premiums can be reduced commensurate with the reduced exposure to liability with the system in place. Could you give us some color on that?

Bryan Lewis: Yeah, so we actually--the question that we ask the association up there and they are looking into seeing if there's something they could do to help reduce liability. What I can

say, which I think is also good advertising and good for us, we have many of our clients have asked us, "Can we get stickers that we can put in the front window that say, 'Age Verified by Age ID Intellicheck' or something to warn people don't even try it." So, I think there's the one end that hopefully the name gets out there and people realize if you got this tool, don't even try. And that should help us get the bar down the street from the one that we are have the product in. But, they're looking into that, and they're going to come back and see--and let us know so that we can use that in our marketing.

Roger Liddell: Okay. And, Bryan, you were on several--like you were interviewed several times and posted on the Website. I was interested in something you commented on the--it is in the context of Experian and I don't recall if it was their data or they simply referred to it, but the context isn't credit card fraud itself. It is about retaining more of the transactions that have been abandoned by customers scared off by a perceived lack of fraud protection. So, if I understand the situation correctly, this is a business retention opportunity separate and distinct from a fraud benefit. Could you cover that? Could you describe that?

Bryan Lewis: Yeah, I think what you're probably talking about was that study by the American Institute of CPA's where they--I think, if I'm going to be talking off the top of my head--but I know both numbers were in the high 60s. it might have been 68 percent of consumers said that they've abandoned online transactions if they didn't feel safe and secure on the site. And 69

percent of consumers blamed the store, not the fraudsters, for the breach. So, I do believe that it's one of the things that retailers are beginning to notice that they have reputational risk if they are not showing that they are protecting the consumer in an online transaction. I think that's what you're talking about, Roger. Was that it?

Roger Liddell: Yeah. I take it somebody will recognize the value of retaining that transaction instead of the customer being scared off.

Bryan Lewis: Yeah. People are always worried about abandonment rates and I think we help with that because people feel protected.

Roger Liddell: Finally, third quarter with the typically a time with outdoor festivals and rock concerts and whatever, are there--is there any reason to think there might be a seasonal bump from those kinds of events and possibly if stadiums and arenas are beginning to see the value proposition maybe they would be coming online as we leave the warm weather months. So, do you have any comment on revenue bumps from that kind of offering?

Bryan Lewis: I can tell you that one of the things that we are targeting very strongly right now are the university police forces where there are a large stadium and lots of tailgating and those things because age ID is a perfect use for that. And we are seeing a lot of interest. And we're

also hitting up there again many college campuses, some of the stadiums, are beginning to serve alcohol and that has their concessionaires interested in the product as well. So, we already been in discussions with some of them. I think that they are looking very fruitful and I will again say that that New York DMV article certainly got us a lot of press with these particular types of people from around the country.

Roger Liddell: Okay, thank you.

Bryan Lewis: Thank you, Roger.

Operator: At this time, I would like to turn the call back over to Mr. Lewis for closing comments.

Bryan Lewis: I'd like to thank everybody again for attending our earnings call. I continue to be excited about what we're doing. I know I said it before, but I truly mean it. The changes that we are putting in place are having an impact and I look forward to our Q3 call.

Operator: Thank you. This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.