Intellicheck
Second Quarter 2019 Earnings
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Operator: Greetings, and welcome to Intellicheck's second quarter 2019 earnings conference 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 star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to turn the conference over to your host, Mr. Gar Jackson. Thank you. You may begin.

Gar Jackson: Thank you, operator. Good afternoon, and thank you for joining us today for the Intellicheck second quarter 2019 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 used in 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, identify forward-looking statements within the meaning of the Private Security 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 the company's filings with the Securities and Exchange Commission.

Statements made on today's call are as of today, August 1, 2019. Management will use the financial 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 will 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, everyone, and thank you for joining us for the Intellicheck Q2 2019 earnings call. As you can see from the numbers, the changes we put in place over the past year are making a difference and we continue to march towards the goals we've set for ourselves for 2019. Identity theft is not going away, and we believe that we are well positioned to capitalize on stopping fraud and reducing the sales of age restricted products to the underage.

Our SaaS revenue was up 79 percent over Q2 2018 and was a 30 percent sequential increase from our Q1 2019 numbers. Onetime revenue was up this quarter because, as I have previously said, we no longer do customs development for free. In Q2, we received a second payment for the completion of the development work for the bank we signed in Q3 of last year, which, for clarity, I will call bank three going forward since I have been asked to give names to the banks we have signed to help people keep better track of the progress we are making with each of them.

I believe growth numbers like these demonstrate that we are a very different company today than in February of 2018 when I joined. On today's call, I'm going to focus on four major changes that I've made since joining the company just over a year ago that I believe have led to the growth we are seeing. I have reset where we are focusing our resources, how and to who we sell, how we price the products, and, finally, how we implement. First, we identified financial services specifically for the purpose of stopping identity theft as our primary target market that we believed would be the fastest route to revenue and profitability. This is now our main focus. This does not mean we are not devoting effort to age restricted products and law enforcement, just the percentage of time and the resources devoted to each has been rebalanced.

Identity theft is a massive pain point for financial institutions. According to Javelin Strategy and Research, 14.4 million Americans had their identity stolen in 2018 at a cost of $14.7 billion. Add to this the estimated $6 billion banks lose to synthetic identity theft and you can see why banks would be looking for a simple, frictionless way to combat this theft. The ability for thieves to steal an identity is not going away. The data is already out there on the Dark Web to do so and the data breaches just keep coming.

2018 saw a 120 percent increase in the amount of personally identifiable information breached over 2017. This year, breaches continue at a record pace with the first quarter of 2019 seeing a 56 percent increase in the number of reported breaches and a 29 percent increase in the number of exposed records compared to the first quarter of 2018. And just this week, we saw the data of 100 million people exposed at Capital One. I myself have been part of five sets of package data sales this year. It isn't a question of if, but rather when for most of us.

The data is so plentiful, it has become ridiculously cheap. A social security number cost $1 on the Dark Web, a driver's license information is $20. All the thief needs now is an authentic looking driver's license with their face and your information and they are ready to go shopping posing as you, stealing your identity to open new credit card accounts where you don't have an account, and posing as you, pretending to have forgotten your credit card where you do have credit in what is known as a card not present transactions.

Think how simple this crime is to pull off. It seems as if every time I make a purchase, the sales clerk asked me if I want to open a new account. If you say yes, they ask for three things, social security number, income, and a driver's license. If you say you forgot your credit card, they usually ask for even less, the last four of your social security number and your driver's license. All this can be bought online for less than $200. The irony is that the most expensive part of this package is the fake ID and the fakes are good. So good that over 55 law enforcement agencies use our products because even their most trained and seasoned officers can't spot them. So, what chance does a store clerk have? None without authentication software.

Another change that is now in place is how we sell and who we sell to. Whereas previously we've been mostly trying to sell to retailers, we now focus on banks. Why? Because the banks who issue the white label or private label credit cards typically take the hit for fraudulent accounts and this amount isn't trivial. We asked several our clients how much of the average loss for fraudulent account opening is and it is staggering. For department stores, it was $2,100. For tool and equipment stores, it was just over $2,500. For furniture stores, just over $2,900. And, finally, for jewelry stores, just over $3,500 each time.

When you consider we stop a fraudulent transaction on average every 90 seconds, you can see how quickly the losses add up and why they like our frictionless and easy to integrate solution. We also began to sell with data. We know how often we stop fraud for each of our retailers and know how often it happens by retailer type. When we combine this with the average loss reported to us, we have a pretty accurate idea of what we save for prospects. This gave us the confidence to stand much firmer on pricing.

As we analyze the data on fraud stopped and with our new focus on banks, we changed how we priced our retail ID products. In the past, we had priced it on a per store model with a flat fee for each store where the product was installed. We did not feel this was adequately compensating Intellicheck for the value we brought to the table. So, for the most part, we have moved to a per scan model. This model made much more sense as the banks are used to a transactional model and it allowed us to be more fairly compensated for the return on investment we were bringing.

We structured the pricing model to count all scans from every client a bank brings on board. This pricing is tiered in tranches and the price per tranche goes down as total monthly scan volume goes up. This incentivizes the banks to bring more clients on board since their marginal cost of stopping fraud goes down as the number of retailers using the system increases.

Driven by the data presented in our focus sales process, I am pleased to say that changes have led us to closing deals and bringing on additional banks and retailers. The final and critical change to enable us to capitalize on these opportunities was to improve the processes and professionalization of our implementation team. I felt we were too reactionary, and the reporting lines of people tasked with implementation were split between sales and development. This meant there was a lack of accountability and no single person I could point to to get things done. As a result, we formed a distinct team reporting to Bill White and whereas before we were reactionary, now we are proactive and the process. Each implementation gets a little faster and easier and this new structure led by Bill is working much more efficiently.

So, what did we achieve with these changes? Let's start with an overview of the banks we have signed. So far, we have four of the top 10 banks as customers. I've received feedback from some shareholders that it's sometimes difficult to determine what bank I'm talking about. Since confidentiality agreements prohibit us from naming them, as I mentioned earlier, I will now refer to them by number. Bank number one is the smallest of our bank clients in terms of credit cards issued. They are, however, a fantastic reference client who will speak with any prospect we have regarding the accuracy of retail ID and the reduction in fraud. We are currently working with their innovations team on new projects within the bank and I am happy to say they recently reported to us that they team tested 277 fakes against our system, and we caught all 277.

Bank number two is our longest standing client and had a tremendous legacy deal with us in terms of pricing for them. Even with a fantastic deal, though, I saw that they had not brought live any new retail clients in at least two years before I started. In addition, they hosted our technology, which was cumbersome for us as it meant sending updates to the software, we use to catch fakes. Their contract was up for renewal last year and I was steadfast that we would not renew at their low per store pricing. We successfully negotiated new agreement that migrated them to our SaaS web service model hosted by Intellicheck and also moved them to the per scan model. Since that renewal and the reestablishment of the relationship, they have brought us 11 new retailers. Four have gone live so far and the rest have various deployment dates running through Q1 2020.

Bank number three was signed in Q3 2018. This is a testament to the effectiveness of changing how we sell. This was a prospect that the company had been trying to sell to to a third party and it had gone nowhere for over a year. We decided it was best for us to engage the bank directly to sell our products. Within six months, we signed them as a client also under the new per scan pricing model. This also represented another first. It was the first major engagement where we charged for custom development. This bank wanted it at the slow process, and they paid for it. Half last year and, as I said earlier, half in Q2. They are now live and has started paying us monthly SaaS revenues and are working with our implementation teams to bring their four largest retailers by volume live in addition to their retail branches.

Bank number four was even faster from a sales cycle perspective. The first use case for this bank was in their call centers. If you see their commercials on TV and decide you want their credit card and call them to apply, the final step in the process is a text sent to the applicant's phone. This text is a derivative of our retail ID technology that uses the camera on the customers to scan and authenticate the driver's license. From discussions to contract for what was to be a 60-day pilot took about 30 days. And 30 days into the pilot, they were so impressed, it went to full rollout across the call centers. They now have over 4,500 call center personnel using Intellicheck's authentication technology.

In addition to the call center, they recently signed a statement of work with us to deploy our technology at the retail branches and with their merchant channel. Integration for the branches is underway and they have brought to us two of their largest retailers to start using retail ID. One of these large retailers is already in a very successful pilot and the other is doing integration work for an upcoming pilot. I am very excited about an upcoming meeting with this bank to discuss additional ways we can partner together with them.

Our newest financial services partner is an online bank we will call bank number five. This account was sold in conjunction with Applied Recognition, one of our facial recognition partners as the bank wanted a two-part authentication. As a part of the online account opening process with this bank, the first step is Intellicheck technology authenticating the driver's license and if it passes, our partner's facial recognition technology matches the face to the picture on the license. We're not sure how large this opportunity will become, but it proves that combined technology works, and we believe it will lead to future revenues and new opportunities.

The speed at which we can install clients is proof that the new implementation team is working. Having a single person to point my finger at, namely Bill sitting here next to me, has brought the accountability and leadership we needed.

To speak to the difference of the before and after, in 2018 we did integrations with three retailers. So far in 2019, we did integrations with banks two, three, four, and five, as well as seven integrations with retailers and a visitor management system. Currently in queue for implementations through Q1 2020, we have 12 retailers, three retail bank branch systems, and an automotive dealership management system.

That brings us to look at some of the retailers we brought live this quarter. For the purposes of this part of our discussion, today, I am focusing on four major retailers with an extensive retail footprint. One of the stores we brought online is a leading sporting goods chain. This Midwest based discount store chain has more than 200 locations, largely in the South and Midwest. Many of you likely are familiar with its store products selections that include clothing, shoes, and equipment for almost any sport or outdoor activity.

We also went live with an east coast base chain of home focused merchandise retail stores that include more than 1,500 locations, including its subsidiaries. No doubt many of you have visited one of their stores focused on kitchen, bath, and other home products. A leading beauty retail chain store company went live this quarter as well, focused on beauty, cosmetics, and personal care products, their reach includes over 400 stores and the Americas. Another leading US national retailer that went live with us is an outdoor gear and apparel retailer with over 200 locations across the US.

As you can see, these are powerful results that speak to the realities that we are not the same company as we were in February 2018. To further highlight how different we are, we recently had inbound calls from a major online bank and a traditional brick and mortar bank. Both told us that they were at an industry roundtable run by the Arania Group, a payments and leading advisory group. At this roundtable, these two banks spoke of their fraud problems. They both told us numerous attendees said call Intellicheck. Like I have been saying over the past year, the market is coming our way.

Another key element to measure growth are scan volumes. So, were going to look at percentage changes. Since we had no visibility into the scan volumes of bank two when they were hosting the software, absolute numbers would not make much sense to report on at this time. As I said earlier, bank two has transitioned to our SaaS solution and a pay per scan model.

And going forward, we intend to disclose those scan numbers. What I can tell you right now is the total scan volumes for financial services were up 13 percent sequentially comparing Q2 2019 to Q1 2019. This compared to a 9 percent sequential increase Q2 2018 versus Q1 2018 and there was an 8 percent year-over-year increase comparing Q2 2019 versus Q2 2018.

While I spent much of the time speaking about the financial services vertical, I do not want to downplay the age restricted product market. We continue to make great headway here. In Q2, we onboarded 86 new clients, four of which were law enforcement agencies. This represents a 10 percent increase in sales over Q1. If legislation changes or the pressure to curb teen vaping motivates one of the large chains being targeted by the Food and Drug Administration and make them decide to do the socially responsible thing, this vertical could explode.

Much discussion has been going on in D.C. regarding raising the age of tobacco products. I've met with most of the legislators proposing these changes and have asked that they include ID authentication in their bills. I've been very clear about what will happen if they don't because the change will have no teeth. I remind them that we raised the agent for alcohol from 18 to 21 back in 1980, yet the CDC reports 11 percent of all alcohol consumed is by under age kids. In the meantime, it is a great business for us to be in because of law enforcement validation, which provides tremendous credibility to our financial services prospects.

So, what can you take away from what you've heard here today? Our changes are working. We are making headway in financial services. For the top 10 banks for just the private label credit cards alone, we estimate the total addressable market could be 180 million to $250 million annual SaaS revenue opportunity over time. And our clients are now looking beyond private label credit cards and to put our technology in the bank branches and on their mobile apps and even, more importantly, want to partner with us to see where else this very effective authentication solution can be used. I believe we are just scratching the surface.

We are not the same company and I think all of us at Intellicheck couldn't be more excited about that and what is yet to come. I will now turn it over to Bill White to discuss the financials.

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 ending June 30, 2019, which we released this afternoon. I'll begin with the second quarter results. Revenues for the second quarter ended June 30, 2019 grew 56 percent to 1,558,000 versus 1,001,000 for the same period last year. Our SaaS revenue was approximately 1,121,000 for Q2 2019, a 79 percent increase from the 625,000 we posted in Q2 of 2018. And was a 30 percent sequential increase from approximately 861,000 in Q1 2019.

Our gross profit as a percentage of revenue was 85.9 percent for the quarter ended June 30, 2019 compared to 91.8 percent for the quarter ended June 30, 2018. Operating expenses that consists of selling general and administrative and research and development expenses increased 10 percent or 196,000 to 2,259,000 versus 2,063,000. This increase was primarily driven by an increase in development personnel and annual bonus payment plan which was contingent upon achieving certain goals established by the board of directors and compensation committee.

The company posted a net loss of 874,000 for the three months ended June 30, 2019 compared to a net loss of 1,100,000 for the quarter ended June 30, 2018. The net loss per diluted share was six cents versus seven cents in the prior year. Adjusted EBITDA for the quarter ended June 30, 2019 was negative 785,000 compared to a negative 1,018,000 in the quarter ended June 30, 2018. Interest and other income were negligible for the quarters ending June 30, 2019 and June 30, 2018. Now, I'd like to focus on the company's liquidity and capital resources.

As of June 30, 2019, the company had cash of 3.1 million, working capital defined as current assets minus current liabilities of 2.9 million, total assets of 13.4 million, and stockholders' equity of 11.5 million. During the six-month ended June 30, 2019, the company used net cash of 1.3 million compared to a net cash use of 1.5 million during the six months ended June 30, 2018. Net cash use and operating activities was 1.6 million for the six months ended June 30, 2019 compared to 2.1 million for the same period in 2018. That cash provided by investing activities was 14,000 for the second quarter of 2019 compared to net cash used in investing activities of 107,000 for the six-month period ended June 30, 2018 and we generated cash of 268,000 from financing activities for the six months ended June 30, 2019 compared to 688,000 for the same period last year.

On February 6, 2019, the company entered into a revolving credit facility with Citibank. This agreement allows for maximum borrowings of 2 million secured by collateral accounts and various interest at Citibank's base rate minus 2 percent. As of today, there are no amounts outstanding under this facility. We currently anticipate their available cash as well as expected cash from operations in 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. At December 31, 2018, we had a net operating loss carry forward of approximately 15 million. I'll now turn the call over to the operator to take your questions. Operator?

Operator: Thank you. At this time, we'll be conducting a question and answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd 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 star keys. One moment, please, while we poll for questions.

Our first question comes from Mike Grondahl with Norland (ph) Capital--Northland Capital Markets. Please proceed with your question.

Mike Grondahl: Yes. Thanks, guys, and congratulations on the progress. The first question, it sounds like the pipeline or the backlog has got 12 retailers in it, three bank branch systems, and an auto DMS system. I guess that's not really the pipeline. That's what on track to be implemented. Is that how you think about that?

Bryan Lewis: Yeah, that's exactly the way to look at it, Mike. Those are people that have committed to coming on to the system. It's just a matter of where they are in the implementation queue. Some are in active development, some are beginning to roll out, and some are saying this is something that we have resources allocated for on January 1, 2020. So, it's just a matter of where they are in that queue. But, yes, as opposed to saying it is a pipeline of people or prospects we're talking to, these are people who have committed to installing the system.

Mike Grondahl: Got it. Got it. And then, was the onetime payment in the quarter for implementation, was that roughly 185,000 kind of the amount you had called out a quarter or two ago?

Bryan Lewis: Correct.

Mike Grondahl: Got it. And then, as you work through--I guess we really say the first seven months of the year, did anything fall out of your funnel?

Bryan Lewis: If you're saying is there anything that we thought we were going to sign that we didn't sign, I would say the answer is no. We have had a couple of retailers who might've moved right, but we've also had a couple of retailers who've moved left in terms of implementation and the timeframes. I think that the more that we have committed, the less those movements really matter because they offset each other. But, it's not like somebody's come to us and said, I'm thinking about this, and then said no.

Mike Grondahl: Got it. And it's not like--you haven't lost any customers still, right? Your retention is still 100 percent or close to that.

Bryan Lewis: Yeah. The only time we ever lose a client is if a bar goes out of business and that one age ID subscription, which is by itself inconsequential. Since I have been here, we have never lost a retailer or a bank.

Mike Grondahl: Got it. Got it. That's what I thought. And then, is it possible for you to rank those banks in terms of potential revenue?

Bryan Lewis: That's really hard to say because I haven't gone through and analyzed the makeup of each one of their programs. So, again, if we go back to some of the things that we've discussed at some of the conferences, bank number two has over 160 private label credit card programs they run. But, as I've said, I don't think somebody's going to steal identity to get their kids braces. They do a lot of dental offices and things.

So, we whittled it down and there's--I think it was 57 different retailers that made sense, that they are similar to other clients we have on board. I haven't done yet the same analysis, but it also depends on the size of the retailers. Some of them have more of the 15 to $5,000 store--5000 store location retailers than others. They're all in that top 10, though, is what I'll say. And the top 10 does control around 99 percent of this particular market.

Mike Grondahl: Great. Okay. Thanks a lot.

Bryan Lewis: Thanks, Mike.

Operator: Just a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for questions. Our next question comes from Ronald Romerhauser (ph), a private investor. Please proceed with your question.

Ronald Romerhauser: Hey, Bryan. This is Ronnie Romerhauser. I'm a private investor. I have a pretty tricky question based on what you discussed earlier in this call. Last week, we saw a breach of Capital One. I don't know if they're number one, number two, number three, number four, or number five, or any of them, but that type of a thing is huge. I was wondering how and generally would our company be able to take advantage of something like this if this were to occur to one of our clients. Would we--would they have to reissue 140 million credit cards and would we be part of that?

And the second part of my question is there's a big move afoot about securing data. So, these breaches that--we had Equifax and we have constant breaches that take place. And if they were to shore up the controls, would they possibly include driver's license verification or authentication? You're going to have to say that for me. Would that constantly be part of some tightening of controls? And hence, that would be a big advantage to us. Could you discuss that?

Bryan Lewis: Yeah. So, I see to the three-part question. Part one, how do we capitalize on breaches in a way? And I think that the Equifax breach was probably, I hate to say it, bad for people, good for us because that was a lot of data and pretty much everything you need to steal somebody's identity and that was 145 million Americans. Studies have shown--one by Accenture that said that it takes about 18 months from the date of a breach to the time that the data begins to show up for sale. It gets seasoned, gets packaged, and then gets sold. And I believe in that--put it at Q4 of 2018 would be that 18-month mark. And we did see a spike in fraud attempts.

The Capital One breach--we're not really involved in the reissuance of credit cards. Maybe the good thing about that is I--what I've read is they don't believe that data was published yet by the woman who hacked them. But, it's still--it was a lot of information, about 100 million people, and if it is out there, it's just adding to the ease at which criminals can buy the data, which I think makes it all the more important that banks buy a system like ours.

As far as cybersecurity and breaching data, I think that's a completely different market. If you look at how that woman broke in, she found there was a deficiency in the way that something had been set up by Capital One on the Amazon Cloud. And I don't know whether from her experience at Amazon she was able to exploit that or find it, but that's certainly not a market that we are--I don't see how we would bring anything to that other than authenticating that the employee's who they say they are.

Ronald Romerhauser: All right. What about changes that might take place in the future? Would they use driver's license--authentication of driver's license to help secure information?

Bryan Lewis: It's conceivable. Right now, I'm focusing on the markets that we have right in front of us that I want to be dominant player in, which is the issuance of credit in the financial services space.

Ronald Romerhauser: Okay. Fair enough. Thank you.

Bryan Lewis: Thank you.

Operator: Our next question comes from Roger Liddell with Clear Harbor Asset Management. Please proceed with your question.

Roger Liddell: Yeah. Bryan, the 12 to 18 months lag figure--Accenture, I think you said, that's been a constant over the period that you've eluded to it. Is there any thesis for an acceleration, just things happening faster and an incentive to rush before certain authentication gets in place? Can you just elaborate on that?

Bryan Lewis: I don't know that I've seen it, but it seems logical that just because there is so much data out there that I would expect that before maybe some monitoring gets put in place or other things like that, they might be rushing to use the data. That could be why I saw myself in five package deals whereas I hadn't been involved in anything in the previous year that I've been monitoring myself. This year, in the first quarter, that's when those five deals went down. So, it sounds like people are selling the data, packaging the data, and getting it out faster.

Roger Liddell: Okay. So, we may see the spike earlier.

Bryan Lewis: Yeah.

Roger Liddell: That would be a nice tailwind. Can you elaborate on the facial recognition that you talked to regarding bank number five? I know Intellicheck had or perhaps still has some intellectual property in that area, but it--there are pros and cons of facial recognition. So, would you take a few minutes and just walk us through how you think it's going to play out?

Bryan Lewis: Yes. I believe in an increasingly mobile world. You're going to need to be able to authenticate people from afar. If I'm in a store and I'm looking to do something, we can authenticate the license and then the clerk or the bank teller can visually compare me to the picture on my license and make sure that I am who I say I am. When you're doing it on a mobile device, that obviously doesn't work. So, I look at it as a three-step process if you want to be very complete about it.

The first step is the application will authenticate that the driver's license is real using the barcode. You then take a picture of the front of the license and through OCR, you authenticate that what is written on the front is actually what is encoded in the back. So, my name on my license. In doing so, you now have my picture. And then the next step is let's make sure I'm still holding that license. So, take a selfie that proves liveliness so that it's not just that I'm taking a picture of a picture to compare but it is actually my face and I am alive and see the match against the photo on the license. And now, I know that it's a real license and I'm still holding it and now I can continue with that application.

So, there's a lot of mathematics that goes on in that facial recognition software. And this one particular partner, Applied Recognition, we found very good at it and it's certainly worked in the sale to bank five.

Roger Liddell: Do you foresee other major issuers going this route?

Bryan Lewis: Yeah, we're in talks with a lot of people about it. Any one of the banks that is moving to online enrollment is looking to have this technology. So, I would say that it is something that banks one through four are also talking to us about.

Roger Liddell: Okay. Timeframe? Is this a one quarter or one year or two year?

Bryan Lewis: Really depends on the particular banks and what their innovation teams are doing. And I'll say some banks move at warp speed and others, it's like going to the DMVs of old in terms of how quickly things move. So, I anticipate this is something that will probably take several quarters to get completely done. I will also say it's going to take a long time before more things--most things are mobile as opposed to in person. So, it's--to me, the big revenue stream is still our bread and butter business of authenticating somebody at a physical location.

Roger Liddell: Thank you. Finally, the FDA opportunity or for the FDA, some other entity that promulgates the standard or let's call it a performance standard. Is that a one quarter or one year or two year if it's going to happen? And I understand you are not asking anybody to put this into their model, but can you give a sense of the probability of it happening and what's the timeframe?

Bryan Lewis: If it's--if they're going to put anything in legislation that says authentication, I think it's going to happen soon. Those bills are all being written, and they'll pass in short order. There's already some states or cities that have raised the age to 21. I believe everybody I spoke to in D.C. understood the fact that without authentication, it's--they'll never be able to do it.

I took a ton of fake licenses with me and especially licenses from the states of the people that I'm meeting with. I'd drop them on the table, and they were shocked that they couldn't tell and it's their own state. They're pulling out their licenses and comparing it and they realized how good these fakes are. Now, it's just a matter of are they going to fight enough to get that through. And I don't know. I haven't seen anything come out of Washington in a while. So, who knows what will actually happen?

I'm thinking that there are some of the larger companies that are realizing that they really have to do something from a PR standpoint and from the standpoint of they also--legislation could be that they're not allowed to sell these products. And I think they'd rather have the revenue stream from the people who should be buying it and block those that shouldn't be because that's really been the whole problem with the age restricted marketplace.

The law only says that you need to visually inspect the license, right? We know these fakes are good enough that that doesn't work anymore and there are plenty enough people out there who would rather say, hey, I complied with the law and know that they're selling beer or tobacco products to a kid and pocket that revenue versus not pocketing the revenue and doing the right thing. So, you got 86 new people last quarter who wanted to do the right thing. I hope it's a trend that grows.

Roger Liddell: Okay. Thank you.

Bryan Lewis: Thanks, Roger.

Operator: Our next question comes from Scott Buck with B. Riley. Please proceed with your question.

Scott Buck: Yeah, good afternoon, guys. I'm curious, can you tell us how many of the banks in--at the current level of implementation are profitable on a standalone basis?

Bryan Lewis: I'm not quite sure how to answer the question. What we've done, for the most part, is they're going to pay us a minimum that's going to cover most of our expenses for the hardware and other things like that. We're running at 85 percent gross margins as is. We don't expect that to change at all going forward. So, I'm not quite sure how to answer that. I don't--Bill, if you got a better idea.

Scott Buck: I guess what I'm really asking is is each incremental relationship profitable from day one?

Bill White: Yes. Yes, it is.

Scott Buck: Yes. Okay.

Bill White: The per scan model takes into consideration--and our cogs are 15 percent. So, yeah, we're profitable from the first day.

Scott Buck: From the first flight. Okay. That's perfect. Second question. Obviously, there's a lot of implementation work to do. What kind of capacity do you guys have to go out and market to banks numbers seven, eight, nine, I guess?

Bryan Lewis: From an implementation standpoint, it's--we could be doing 20 banks at once. It's really--from our end of it, we've done--and Bill's giving me a shocked face. I'd be pointing my finger at him. But, from our end of it, it's just teaching them--generally, the two things we need to do is teach them how to make sure their scanner is sending us the data we need in the format that we need. And then, how to write to our FTK or ATI. So, from our end of it, it's mostly education. It's not a--it's not like we're doing custom programming to bring somebody up who's going to code just to our normal specs. And where we do have to do custom coding, it's got to be--I'm not going to do it for a teeny tiny thing. It's going to have to be a big bank and we charge them for it now.

Scott Buck: Right. Okay. That's perfect. I appreciate that, guys.

Bryan Lewis: Thank you.

Operator: Our next question comes from Mike Grondahl with Northland Capital Markets. Please proceed with your question.

Mike Grondahl: Yeah, guys. Just a follow up. I think you talked about retail scans being up 8 percent year over year and SaaS revenue was up 79 percent year over year. So, just help me think about both of those numbers. Are you basically getting it all on price because you've gone to the per click model? And the 8 percent scan volume, I think that excluded that one bank, but just help us understand those numbers.

Bryan Lewis: And you got to remember the age restricted products go into that growth number as well. Some of it is price, for sure. Because as I said, we--changing the pricing model and bringing on clients that were paying us in the manner that we wanted, I think, is really what made the difference. So, the--banks two and three and four beginning to pay us on--well, yeah, just three and four beginning to pay us on SaaS revenue on a per scan model is a big part of the difference as well as--and the dedicated team that we have selling a lot of HID, that helps.

Mike Grondahl: Okay. Okay. Thanks.

Operator: There are no further questions. At this time, I'd like to turn the call back to Bryan Lewis for closing comment.

Bryan Lewis: Thank you, everyone, for joining us on this call. I am very happy that the changes that we have put in place are making a difference. I think you'll continue to see that throughout the year. And I look forward to our Q3 call. Thank you, everyone, and have a good night.

Operator: This concludes today's conference. You may disconnect your lines at this time. And we thank you for your participation.