Intellicheck
Q4 and Year End 2018 Earnings Call
March-21-2019
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Operator: Ladies and gentlemen, greetings, and welcome to Intellicheck Fourth Quarter and

Year-End 2018 Earnings Call. At this time, all participants are in listen-only mode. A brief Q&A

session will follow the formal presentation. If anyone should require operator assistance during

the program, please push star zero on your telephone keypad. As a reminder, this program is

being recorded. It is now my pleasure to introduce your host, Gar Jackson of Investor Relations.

Thank you. You may begin.

Gar Jackson: Thank you, operator. Good afternoon, and thank you for joining us today for the

Intellicheck fourth quarter and year-end 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 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 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 the company's filings with the Securities and Exchange Commission.

Statements made on today's call are as of today, March 21, 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 in context for the use of this term. We will begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer, followed by Bill White, Intellicheck's Chief Financial Officer, who will discuss the Q4 and full-year 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, and good afternoon, everyone, and thank you for joining us for the Q4 2018 Intellicheck's earnings call. My first earnings call as CEO of Intellicheck was one day shy of a year ago, and I'm very pleased with the changes in progress we've made over the past year. As I said on the last call, the increases in identity theft and the under-age getting access to age-restricted products and the need to increase officer effectiveness and safety is fueling the realization that authenticating and government issued ID is the most effective way to solve for each of these issues.

I would like to start with some general comments about our growth. I believe the changes we have put in place over the past year are beginning to bear fruit. Quarter over quarter SaaS revenue grew by 45%, and it was the first quarter since Q1 2017 where losses were below $1 million. We've re-engaged with existing clients and signed a new large bank, and I'm excited to say that other major banks are now reaching out to us. Credit card issuers who hadn't returned calls are now coming up to us saying X, Y, Z bank told us about the great things you're doing for them, so we have to speak. And this is just one sector in which identity authentication is becoming a must have. I have been saying that it appears that market is coming our way, and will also say that the evidence is bearing that out, both in terms of clients and prospects, and also the continued level of breaches and identity thefts.

I would like to remind everyone of the magnitude of the problem that outline the addressable market. I will start with the consumer space, specifically retail, which we still believe has the most immediate revenue opportunity given the speed of return on investment for retailers and banks. The market need continues to be driven by the reality that identity theft is not going away. In each of these calls, I've just spoken about the volume of data breaches. The amount of data stolen is astounding. The Identity Theft Resource Center reports that the amount of personally identifiable information, or PII, exposed in 2018 was up 126% over 2017. They detail 1,244 breaches in 2018, resulting in 446,515,334 records being exposed. This is on top of the Equifax breach in 2017 that exposed the name, social security number, and date of birth of over 145 million of us.

That gives a criminal more than enough information to steal your identity, and it happens. It happened to 14.4 million adult Americans in 2018. Interestingly, the CEO of Equifax testified before congressional committee that it has happened to him three times. Closer to home, my personal data has been involved in 10 breaches since 2012, and I was alerted on February 25, that my data was in two of five datasets called for multiple breaches that were sold on the dark web in January. So, it is very likely that it is only a matter of time before I am one of the victims, as well, and this data is cheap. Experian recently put out a report detailing the cost of different data elements. Credit card information, including the secret CVV code on the back of the card,

costs just over $100. Driver's license data, about $20, and the one element used to uniquely identify us, our social security number can be bought for only $1.

The cost of doing business with criminals keeps going down. The only thing that criminal needs now is a driver's license featuring their photo with a stolen information to back up the stolen data. A sophisticated take with all the Holograms that will pass the backlight test and will pass a simple barcode scanner test costs between $100 and $200 and can be quickly and easily ordered over the Internet. The numbers demonstrate how easy it is to compile and steal an identity portfolio for less than a few hundred dollars. It is scary to think that I can buy everything I need to walk into a store and [inaudible] very quickly, easily, and relatively anonymously. Almost every store trains their staff to ask if you would like to save money by opening a store account. What are they asked for? Income, social security number, and an ID, and just like that, a large purchase has been made in your name, using your stolen identity portfolio with a matching face driver's license that ties everything together.

Just this month, CBS News reported on an identity theft ring operating out of Long Island that stole at least 500 identities and used them to take out loans in credit unions. The identities were purchased on the dark web from a website in Cameroon, Africa for $4 per entity. All this points to the fact that the best way to stop identity theft is to authenticate a government issued ID at the start of the transaction. Other forms of authentication do not work. In regard to

one of the most common ways of authenticating a person, knowledge-based authentication or

KBA, 32-state attorney generals wrote this to the DOJ in regards to the proposed changes to the

FTC identity theft rules.

They said, "We are concerned that knowledge based authentication by itself is an acceptable

form of communication. There is growing concern that in today's world identity thieves can

now overcome knowledge-based authentication questions either because the questions are

weak or the answers are readily available online or previously compromised from a data

breach. In a well-known example, a student in Tennessee successfully reset the password for

vice Presidential candidate Sarah Palin's email account and gained access to its content by using

a simple Google search to obtain Palin's birth date, zip code, and where Palin met her spouse.

With information gleaned from data breaches or publicly available on social media sites,

identity thieves can be better than consumers that are answering knowledge based

authentication questions, because they have the data in front of them whereas consumers

need to try to recollect events that happened years ago."

They have said previously, you can buy all the data you need about a person, but you can't buy

an authentic government ID. I've spoken many times about the cost of identity theft to banks

and retailers. Javelin put it at $14.7 billion in 2018, but one thing we haven't talked about is a

cost to the consumer whose identity has been stolen. Studies say that, on average, if your

identity has been stolen, it will take you 300 hours over six months and cost you over $1,000 to clear your name. And there is an additional economic impact of identity theft for banks and retailers. The survey by the American Institute of CPAs has found that 62% of consumers blame the company that fails to protect their data, not the fraudster, and 62% of consumers will boycott a company that fails to protect them and their data.

Based on the date of the Equifax breach and the Accenture study that found that from the time of data breach to when the data was fraudulent used was typically 12 to 18 months, we had been predicting a spike in fraud in Q4. Unfortunately, for many, we were correct. We saw an overall 20% increase in attempted fraud across our retail ID client base. In online channels, we saw an 82% increase in fraud attempts, and, for what I would classify as our high-end retailers, the attempts nearly doubled. We estimated we stopped over 51,000 fraud attempts in Q4. If you remember from previous calls, each time fraudulent credit is issued due to identity theft at a department store, the average loss is $2,100. At tool and equipment stores, it was $2,569. For furniture stores, it is $2,908, and at top seller jewelry stores at $3,574 per transaction. Given these numbers, we estimate we kept $110 million out of the hands of criminals.

Let me turn to scan statistics. I wanted to point out that these numbers are just for the clients where we host the software. In Q4 2018, total scans were up 49% over Q3 2018 and were up almost 10% year over year. Retail ID scans for 2018 were almost double 2017 at over 22 million

scans. As we bring the large retailers in our pipeline for the two banks I spoke about last quarter online, this number will undoubtedly quickly grow. To give you an idea of the number of scans that a retailer can do, one ladies apparel company that you will see in your local mall goes almost 10 million account opening and account look up scans a year.

When you see how many retailers the bank is issuing credit for, plus the bank's own cards, you can begin to understand the size of the potential market we can sell into in just this space. One issuer we are working with provides the credit cards for over 177 retailers and online merchants. While not all are nationwide chains, over half are, and if their scan volumes are the same as the latest apparel company I spoke about earlier with 10 million scans a year, it is simple math. Now, multiply this by the number of banks that issue credit. This is a very large market we are just beginning to scratch the surface of.

We are working with four national bank and credit card issuers right now with at least 16 retailers of all sizes in various stages of deployment from NDA to initial rollout. These merchants represent 10,000 new retail locations, which retail ID will be fully used when rolled out. In an important step forward in expanding our market and penetration, we are piloting retail ID with several of these banks for the issuance of their own brand name credit card. The relationship with the newly signed bank we spoke about last quarter, as well as the reengage client are only growing stronger, and we're on schedule to meet the target date at the end of

Q2 for the retailers to start onboarding and the bank branches at the end of Q3 for the new bank. Additionally, our reengage client continues to bring more retailers to us to integrate with retail ID, because our authentication platform works. We're also making headway with some of the second and third look financing companies, as well.

Our strategy to sell through the banks and credit card issuers who have very large portion of the cost and the pain of identity theft is paying off, and we will be continuing with that strategy. While we are ever mindful of costs, we will be adding some expense in headcount, specifically in IT and implementation, so we can make sure we execute on the demand in front of us. We believe that these are prudent investments given the gross margins that our SaaS products generate.

Let's move to Age ID, a product that we sell per device at a given venue. The main thing I can say about it is that it works. Just a reminder that the New York State DMV before deploying our ID, which uses the same core authentication engine as Retail ID and Age ID, tested this core engine against 1,000 fake IDs. We caught all 1,000. Recently, a police department Age ID client of ours in a college town compared us to a competitor being used by some of the bars in town. They reported that in the test, we caught 99% of the fakes, while our competitor caught only 16% of the fakes. They strongly suggested that the establishments using our competitor switch to Age ID.

The potential market for Age ID is enormous. Think about all the places that sell alcohol, tobacco, vaping products, or cannabis. Each one of those is a potential client, if the owner of the business decides that being socially responsible is more important than the profit to be made by selling to someone you shouldn't. For this reason, Age ID is another example where it's best to sell to an association that could push the product to its members, insurance companies that give a discount or into a space that is under regulatory pressure, such as the vaping industry. We continue to foster these relationships as demonstrated by the recent Smoke Free Alternatives Trade Association and the New York State Vaping Association press releases. The FDA is coming down hard on the vaping retailers, and these associations know it.

On March 4, the FDA sent a letter to Walgreens asking for a meeting to discuss the high rate of violations by Walgreens stores and what steps the company will take to address these corporate wide failures, while also putting 14 other national gas station and retailers on notice that they will be asked the same questions. Each of these companies notified has a point of sale system that can easily incorporate Age ID. I hope that they listened to the FDA Commissioner when he says, ignoring the law and then paying associated fines and penalties should not simply be viewed as a cost of doing business.

While we do not sell this product first hand, it is interesting to note that in 2017, we did a total of just over 260,000 scans. In 2018, this grew to over 2 million scans. Another interesting statistic is the percentage of fakes found by retailers versus law enforcement. In 2018, when retailers scanned, the average fraud rate was 2.67%. The 2018 fraud rate with law enforcement use was 6.94%. I think this reflects the fact that law enforcement scans every one, whereas retailers generally do not. I think the law enforcement numbers are a much better indicator of the true number of fakes and why we're seeing more regulatory pressure. New Age ID clients in the second half of 2018 grew 116% over the first half of 2018, and Q4 2018 Age ID revenues grew 129% to $110,000 from $48,000 in Q4 2017. Our restructured sales team, search engine optimization, association partnerships, and mass marketing are paying off, and we will continue with this strategy.

Moving to our law vertical where we can sell both Law ID and Age ID, you see that Age ID can be a much easier sale as the restrictions from the FBI's criminal justice information system on the police department, as well as the fact that there are no state level integrations required, means we can sell it in all 50 states. While Age ID does not replicate what the computer and a police cruiser can do or what Law ID can do, every jurisdiction in the United States has issues with the sale of age restricted products. In Q4, four more law enforcement agencies contracted for Age ID. Law enforcement tends to be one of our best lead generators for Age ID sales. Those establishments cited for selling to the under-aged tend to call us up for subscriptions.

The feedback we get on Law ID remains very positive, which is why I believe the product has a future. In New York State alone, there are 514 law enforcement agencies with over 66,000 sworn officers. The size of the market is also one of the reasons widespread adoption might take longer. Each of those 514 is an individual sale with individual budgets and needs to be with an agency issuing phones to their officers.

Sales and pilots continue, but are small in nature. I believe that as law enforcement evolves and the number of mobile phones being issued to officers increases, so will our sales. In Q4, we signed one new Law ID client and had a pilot that was successful. It is now in the purchase order phase and began two pilots that just ended in Q1. We are now awaiting next steps on those pilots. We are working with each of our client agencies to see where we can expand within the department, and that they are planning for the budgeting cycle, which closes in June. In the meantime, we are aggressively pursuing Age ID with law enforcement, focusing on campus police and the police departments in the towns around or with college campuses.

In closing, I am proud of what the team here has accomplished in the nine months of 2018 that I was part of the firm, and I look forward to reporting to you what I know we can accomplish in 2019. It was a challenging and exciting year for the company and for me, as well. I can't say it enough, the market for identity authentication is growing. Our clients and prospects are

realizing that they should stop chasing the shiny new toy, because the latest technology somebody writes about is nowhere near as accurate, easy to implement, and frictionless to the consumer, as authenticating something we have with a anytime we shop, a government issued ID. The problem of identity theft is not going away.

We are focusing our efforts in the financial services sector, given the massive untapped addressable market in which we are making significant traction and we believe that the fastest path to revenue growth and profitability. We came a long way in 2018, and we have a ways to go in 2019. As long as we continue to execute on the opportunities our clients are bringing to us, it should be a banner year. I will now turn the call over to Bill White, our Chief Financial Officer, to discuss our 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 Form 10-Q and press release for the fourth quarter and fiscal year ended December 31, 2018 that we released and filed with the SEC a short while ago. I'll begin with our fourth quarter results. Revenue for the fourth quarter ended December 31, 2018 grew 37% to 1,330,000 verses 968,000 for the same period last year. Our SaaS revenue was approximately 826,000 for Q4 2018, a 45% increase from 569,000 in Q4 2017 and was a 27% sequential increase versus approximately 651,000 in Q3 2018.

Gross profit as a percentage of revenue improved to 93.1% for the quarter ended December 31, 2018, compared to 89.4% for the quarter ended December 31, 2017. Operating expenses consist of selling, general and administrative and research and development expenses. Including the impairment charge and CEO severance expense, OpEx was flat at slightly over 1.9 million for both the three months ended December 31, 2018 and December 31, 2017. The company posted a net loss of 664,000 for the three months ended December 31, 2018, compared to a net loss of 2.9 million for the quarter ending December 31, 2017. The net loss per diluted share was $0.04 versus $0.19 in the prior year. Adjusted EBITDA for the quarter ending December 31, 2018, which excludes the one-time impairment charge, was a negative 633,000, compared to a negative 1.3 million in the quarter ended December 31, 2017.

Now, turning to our full year 2018 results, revenue for the full year ended December 31, 2018 was up 23% to 4.43 million, compared to 3.6 million for the prior year. Our SaaS revenue for calendar 2018 was 2.66 million, an increase of 63%, as compared to 1.7 million in 2017. Driven by growth in our SaaS business, gross profit as a percentage of revenue was 91.3% for the year ended December 31, 2018, compared to 85.5% during the same period last year. Operating expenses for the year ended December 31, 2018 were 8.1 million, compared to 9.2 million for the year ended December 31, 2017. Excluding the prior year's one time impairment charge previously mentioned along with the severance agreement for our CEO that totaled 1.9 million,

selling G&A decreased slightly to 5.2 million for the year ended December 31, 2018 from 5.3 million for the year ended December 31, 2017, primarily as a result of reductions in stock-based compensation costs and legal fees offset by expanded marketing efforts.

Research and development expenses increased 52% to 2.9 million for the year ended December 31, 2018 from 1.9 million for the year ended December 31, 2017, driven by increased headcount and development personnel and accelerated R&D efforts. As previously mentioned, we've recognized an impairment charge on intangible assets of 1.4 million for the prior year ended December 31, 2017. This was related to trade names, patents and developed technology and non-contractual customer relationships associated with and related to our Defense ID business, which we don't believe will be a primary revenue driver in the future.

The company had a net loss of 4 million for the year ended December 31, 2018, compared to 6 million for the calendar year 2017. Excluding the 1.4 million impairment charge and the $0.5 million severance contract, the net loss was an improvement of approximately 155,000. The net loss per diluted share was $0.26 versus $0.48 in the prior year. The weighted average share counts were 15.5 million at year versus 12.4 million at the end of 2017. Adjusted EBITDA was a negative 3.7 million for 2018, an improvement of approximately 200,000, as compared to adjusted EBITDA of a negative 3.9 million for 2017. Interest and other income were 130,000 for

the year ended December 31, 2018, compared to 60,000 for the year ended December 31, 2017.

Now, I'd like to focus on the company's liquidity and capital resources. As of December 31, 2018, the company had cash of 4.4 million, working capital, defined as current assets minus current liabilities, of 4.2 million, total assets of 14.5 million, and stockholders' equity of 12.9 million. During the year ending December 31, 2018, the company used net cash of 3.6 million, compared to net cash generated of 4.9 million during the year ending December 31, 2017. Net cash used in operating activities was 4.2 million for the year ending December 31, 2018, compared to 3.7 million for the same period in 2017. Net cash used in investing activities was 100,000 for the year compared to net cash provided by investing activities of 5,000 for the year ending December 31, 2017, and we generated cash of 688,000 from financing activities in 2018, compared to generating net cash of 8.7 million from financing activities in 2017.

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 bears interest at Citibank's rate minus 2%. As of today, there are no amounts outstanding this facility. We currently anticipate that our available cash, as well as expected cash from operations and available under our 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, 2018, the company had net operating loss carry forwards of approximately 15 million. I'll now turn the call back over to the operator to take your questions. Operator?

Operator: Thank you. Ladies and gentlemen, we will not be conducting our Q&A session. If you'd like to ask a question, please push star one on your telephone keypad now. A confirmation tone will indicate your line is in the question queue. You may push star two if you'd like to remove your question from the queue. And for any participant using speaker equipment, it may be necessary to pick up your handset before pushing the star key. On moment while we pull for questions. Our first question comes from the line of Mike Pachucha [sp] with Northland Capital Markets. You are now live.

Mike Pachucha: Hi, thanks for taking our questions, and congrats on the quarter. Maybe first off, just on that top five bank, is that still four retailers that we're looking at or is that--that number go up since the last quarter?

Bryan Lewis: That's still the initial--and thanks, Mike, for the compliment. That's still the initial retailers that they're looking to bring up, the ones that I think, they look at doing the most scans, probably also equates to the most losses. But they are--we're talking to them about their entire portfolio.

Mike Pachucha: And then on inlets, I might have missed it, but is that still live at six states, or how's that progressing?

Bryan Lewis: Yeah, the inlets is still live at six states. So, we're going in and we're hitting those states very hard to make sure that we've got everything that we need to be the product that the police want to put out to their officers. And the reason we're doing that is there's additional fees and costs for each inlets date that we bring up. So, we want to make sure that we've got a lot of demand in estate, potential demand from prospects before we go live with an inlets connection.

Mike Pachucha: Got it, and then just on, maybe headcount and expense, is that something would you see building a little bit over the year? Is that specific to a certain quarter when that starts ramping a little bit?

Bryan Lewis: Yeah, we've added some people already, and we're going to watch it based on the demand in terms of on-boarding our clients. One of the things I talked about a little bit in the past is building out an implementation team to make sure that we have the people in house so that when our retailers bring us--I'm sorry, when our banks bring us the retailers, we've got the bandwidth to speak to them, walk them through the implementation, and get them up as

quickly as possible, because what I have my people targeting is, how can we move up every implementation by a month. That has significant impact.

Mike Pachucha: Okay, that's helpful. I'll hop back in the queue.

Operator: Thank you. Our next question comes from the line of Shaul Eyal from Oppenheimer and Company. You are now live.

Yi Fu Lee: Hi, thank you for taking my question. This is actually Yi Fu Lee for Shaul, and congrats on the quarter's performance. First question is for Bryan. In terms of the law enforcement client opportunity, can you give us a little more color on the total addressable market size? And how much do you think that Intellicheck could capture?

Bryan Lewis: Well, I think that the market--if you look at who could use the product, the main target that make sense to me are officers who are not in a police cruiser. The team is, no laptop, no car, no problem, because, what we can provide is something that gives the officer who is on a bike, a motorcycle, a horse, or on foot the same capability that an officer in a cruiser has to enter information and get back wants and warrants on a person without having to go through dispatch, which frees dispatch up to handle more urgent safety calls.

So, the market is large, like I said--I just gave an example of New York, but you look at any state, there are a number--in any state, there are multiple agencies, and almost everybody has somebody who is not in a police cruiser, whether it's a detective or a special agent type thing. So, they are all the people that we can sell to. When we look at selling to law enforcement for Age ID, that drastically opens up who we can initially sell to and then help us gauge demand for a full blown law ID product, because there aren't the requirements of having a phone issued by the agency that has a mobile device manager on it with special training for the officers that makes him sieges qualified. So, that market is immediately much larger.

So, we're looking at it right now as we've got a nationwide market with two different products, and we're attacking it, I think, in a logical manner to get more police departments online and then have them help us make sure that we have the Law ID product, tilt to the point that it makes a lot of sense for them to issue it department wide. So, the market is very, very big. Is it going to be more Age ID than Law ID in the short term? I would say yes. But it's much easier for us to deploy Age ID than Law ID.

Yi Fu Lee: Okay. And, Bryan, in terms of like the sales cycle, can you give us a little more color--I know you are in process of closing one deal. Can you give us a little color on like, I guess, the magnitude of it, as well as the sales cycle? Will it take like six months, nine months to close? How long is the sales cycle?

Bryan Lewis: For Law ID?

Yi Fu Lee: For Age and Law, maybe.

Bryan Lewis: Age ID tends to be much quicker, because there are not a lot of hurdles that the department has to go through to get the product in the hands of the officers. Again, that's because the information is different. There's no wants or warrants returned on Age ID, which means the police officer does not have to have a sieges certification, and, because there's really no information that gets stored on or that could be accessed from that device, it doesn't require a mobile device manager to allow them to remotely wipe the device should it be lost or stolen.

So, that can be really a matter of--it can be just a couple of weeks. Age ID--I'm sorry, Law ID, they generally want to get in the hands of multiple officers and have, at a minimum, of 30 day pilot generally longer, and then it needs to go into a purchase order process, which tends to be a lot longer than Age ID, because the contract is different, and again, the legal ramifications of having that product in the hands of the officer are different for the agency than they are for Age ID.

Yi Fu Lee: Okay, thank you. And sorry, one last follow-up for Bill on the financial side is, you talked about expanding the sales force in IT. In terms of like--maybe give us a little color on the operating margin headwind in terms of this expansion. And also, Bill, can you give us a little more color on like the nice improvements on the gross margin we've seen this quarter to 91%, as well?

Bill White: Yeah, sure. Thank you. I've said historically that our margins should normalize in the 85% range. We've been running a little above that. I think, well, I think you'll see margins normalize in the 85 to 90% range. We just happened to be a little higher now because of product mix.

Yi Fu Lee: Okay. And in terms of--sorry, the sales force, as well as the IT additions that you intend to put on this year, can you give us a little more color on the operating margin pressure, if any?

Bill White: I don't think there will be significant pressure on the operating margins. We'll add-- we're very cost conscious, and we'll add employees as we need to as we're bringing on these customers and need implementation teams, and more developers are increasing the velocity of development when needed. But that will be as needed.

Yi Fu Lee: Okay. Thank you, gentlemen, for taking my questions.

Bryan Lewis: Thank you.

Operator: Thank you. Our next question comes from the line of Roger Liddell from Clear Harbor Asset Management. You are now live.

Roger Liddell: Thank you, and good afternoon. Several questions on the Age ID side, Bryan, you cited--and I think I recall, it was a college town that had a 99% accuracy rate. We expect that, but then you said verses 16% for the other flavor, the other incumbent systems. 16% effectively means there was no control whatsoever, and I'm startled by that number. Isn't that number itself a major in this more focused--focus of attention on under age issues with vaping being a driver, but isn't a 16 rate just an admission of failure?

Bryan Lewis: In my opinion, I would say, yes, and it's one of the things--this particular town mandated that people have a device. And I think it's another example where I'm working with lot of government agencies to make sure they understand the difference between scanning and authentication. And you can get a scan, or you can download a scanner for free online. But that doesn't mean that it's going to authenticate it. The bad guys know how to create these IDs. They advertise it on their websites that it will pass the scanning test. And it just shows that this

is an example where the law has not kept up with technology. Saying that you need to visually inspect a license does not work. Saying that you need to scan a license does not work. What you need to do is make sure that you can say that this license, with 100% certainty, the barcode on it matches the jurisdiction's actual barcode. And that's why I would say, yeah, I think 16%, you almost might as well not be doing anything. And that's why I think that police departments told the bars switch what you're doing, because you were--you probably try to do the right thing and maybe save a few bucks doing it, but you are not doing what it is we intend you to do.

Roger Liddell: Yeah, fair enough. Following that thread, the FDA meeting that you referred to and Walgreens, well, Commissioner, FDA Commissioner, Gottlieb is leaving, and if he was the driver behind this vaping issue, then I have no idea whether this thing goes right into a ditch. Can you comment usefully on that? And what is the FDA actually doing or threatening to do--I mean, what will they actually do?

Bryan Lewis: So, we've met with them several times and have done a lot to educate them on the difference between, again, visual inspection and scanning. The FDA pays for the whole We Card program where they train people on how to supposedly visually tell a license is real or not. And after we went down there with a bunch of fakes and showed them the fakes and asked them if they could visually tell and then showed them the difference between scanning and authentication by using one of these free downloads versus our Age ID product, I think they

realized that what they were doing is well off the market. They have some guidelines out that they are in a middle of a comment period. Comment period closes on April 15. We will be commenting on that to tell them our take is that this is an opportunity where they could have the guidelines, which hopefully will then impact the law, start moving towards something where the law understands what technology is capable of doing, and demand authentication process, not just the visual inspection or scanning process.

From everything they have told us, his stepping down is not changing their zeal in curbing this epidemic. And I would also say that, again, dealing with SFATA and the New York Vaping Association, they are all also very adamant on the fact that they want to keep the youth out of doing this. They look at their products as something that can get them off of burning tobacco, which they feel is what really causes cancer, and they think their products have a real health use, although I don't know they would ever say--they'd advertise any health aspect, but they think it's something that can get people off of cancer causing tobacco use.

Roger Liddell: Okay. Continuing with the vaping theme, I noticed in the announcement of an upcoming IPO for a company that, quoting here, "Sells vaping products and accessories to over 6,600 independent smoke shops, regional stores, and a number of licensed cannabis cultivators, processors and dispensaries." It also runs two online stores in North America, which sell directly to consumers. The take away point to me is 6,600 independent smoke shops, et

cetera, that's a bigger number than I would have thought. Can you give me a sense of a scope

of the Smoke Free Trade Association? And is the 6,600 location number--does it correlate at all

with what you know about the SFATA membership?

Bryan Lewis: The number from--between SFATA and the New York Vaping Association is much

larger than that. One of the things is many of these vaping shops make their own products and

mix and do. So, there are--this is just, I think, this is just one provider of raw materials to the

vaping shops. So the addressable market, although I don't have it right in front of me, I don't

happen to have the membership list for either of them, but I know it is much larger than that.

Roger Liddell: Yeah, okay, thank you.

Bryan Lewis: Thanks, Roger.

Operator: Thank you. Our next question comes from the line of Ashok Kumar from ThinkEquity.

You are now live.

Ashok Kumar: Thank you, Bryan and Bill. Just a big picture question, Bill, in terms of the bond

rate, do you expect it to remain at the current levels of the 350 a month, which was the average

level in 2018? And the timeline of profitability, you maintained discipline on the operating

structure with about 8 million in annualized operating expenses and 80% to 90% operating

margin, would the 9 million to 10 million be the revenue level where you reach operation

breakeven, and do you have a timeline for that? Thank you.

Bill White: Yeah, Ashok. We've said that we're not planning on raising working capital for

working capital purposes, which would mean that we expect to reach EBITDA positive before

having to raise capital. With respect to timing, we haven't said when we expect to reach EBITDA

positive at this point.

Ashok Kumar: Thank you very much.

Bryan Lewis: Thanks.

Operator: Thank you. Ladies and gentlemen, as a reminder, if you'd like to ask any questions,

please push star one on your telephone keypad now. Our next question comes from the line of

Amy Norflus from Neuberger Berman.

Amy Norflus: Yeah, hi. It was a really great quarter, and there seems to be lots of amazing

opportunities. I know like you just said, you really don't give revenue guidance, but can you kind

of help us understand what we should expect when some of these opportunities should turn into realities, revenue growth rates, quantify anything?

Bryan Lewis: What we have said is that we look at--you look at a national retailer, and we figure each one of those should be worth, when they're fully live, between $800,000 and $1.2 million a year in revenue to us, so depending on their scan volumes and all those types of things. So, it's one of the reasons, we talk about the number of retailers we expect to bring up. Timing of that is very important, but one of the reasons why we're dealing with the banks to help us push through to the retailers, the banks have an incentive, the retailers also have an incentive, not as great as the banks, but it is working. We are--have more retailers that we are working with than certainly have since I started and probably the years previous to that. The message is resonating--.

Amy Norflus: --How many retailers are there? I'm sorry, how many retailers?

Bryan Lewis: Right now, we've got 16 in the pipeline in various stages of implementation.

Amy Norflus: And do you consider bank retailer or how--so when you give us those numbers--I'm sorry, I was just looking for to understand that.

Bryan Lewis: Yeah. I said, we're dealing with four banks who have 16 retailers that they are bringing to us to onboard. In addition, two of the banks are also piloting with their own brand name cards.

Amy Norflus: And would a brand name card be equivalent to if two brand name cards? That would be equivalent to two retailers?

Bryan Lewis: It depends on how many cards that particular bank issues in their own name. But I'd say at a minimum, yes.

Amy Norflus: And can you kind of give us the same thing with the Age ID and the Law ID, how we should look at the revenue trends from those?

Bryan Lewis: I think that Law ID is going to be as I said. It's going to take longer than we anticipated, maybe in the beginning. I think that the product--again, the feedback from officers who are using it is very, very positive. Again, though, it needs to be at a police department that is issuing telephones to their officers, as opposed to, they can go out and get a phone from anywhere to use Age ID. A phone used for Law ID has to be a Department issued phone with an MDM. There are a growing number of law enforcement agencies that are issuing phones to

their officers, but that limits what we can--who we can sell to, which is why, while that part of the market is growing, we're focusing heavily on Age ID to law enforcement everywhere.

Amy Norflus: And Age ID?

Bryan Lewis: I'm not sure I understand the question. What do you want to know about Age?

Amy Norflus: Just trying to quantify some--I mean, like I've been reading all the press releases of you're partnering with these people, you're partnering this working with a lot of different people. Has any of that produced revenue? When should it produce revenue? Just trying to understand.

Bryan Lewis: Yeah, I think it's one of the reasons that in Q--in the second half of last year, we more than doubled the sales of Age ID that we did in the first half of the year, and I would expect that we will continue to see increased sales in Age ID. And again, it's predicated on--the law right now states that all I have to do is visually inspect an ID, and I'm clear. So, as pressure grows on people to be more socially responsible, as states and towns are starting to now think about passing laws to either completely ban the sale of certain products or certainly restrict the age, increase it to 21, they've got real incentive to make sure that they are doing the socially responsible thing.

So, more and more people are coming to us. And the other thing, too, is the more often they get busted by police department using Age ID, the more likely they are to buy. We can usually tell when somebody use--a law enforcement agency using our product has gone out and done its thing and hit bar row in a particular town, because we can map out who got busted, because it's one main street, 12 Main Street, 37 Main Street, suddenly are calling us up, asking about the product.

Amy Norflus: That's great. Perfect. And if I could, just one more on the Retail ID, so the 16 retailers that we have in the pipeline at various stages, is there anybody that's 100% already in there or the 16 will just roll in over a two, three, four year period? Or how do I think about that?

Bryan Lewis: It's not a two, three or four month period. It's a matter of the implementation process, depending on the IT resources available to the retailer to integrate into the point of sale system. We've got retailers who have done it in a matter of weeks and some who it's taken them three or four months. So, it's whatever stage of roll out, or their resources are in. So, we have--in this quarter, we brought up--just brought live the rollout for a national home merchandise retailer with 1,100 stores. We've got it smaller, national specialty retailer that's working out, and we expect--we've got our pipeline of where we stand and a development Q,

as we have our partnership meetings with the banks and their clients to help them with the rollout. We've got a timeframe and target dates for each of those 16, and we are tracking through those dates.

Amy Norflus: So, if I understood you, the 16 is not years, it's months?

Bryan Lewis: It's 16 retailers, specific different individual retailers.

Amy Norflus: Correct. But the resources that they have internally to integrate into their POS system, it--originally I thought it took a few years until you got everything to work into a POS system, but if I heard you said, it's not going to take years, it would be shorter than that?

Bryan Lewis: Generally, the way that a retailer rolls it out, they need to do the work to make sure that they can send us the barcode properly and then can understand the message we send back about that particular barcode, and then whatever the work they need to do to make sure they've got the credit process going properly back and forth with their bank, based on the validation authentication of the ID that we send to them in the bank. They get that done. They generally will roll it out to a few of their locations in different parts of the country to make sure that they've got all the kinks rolled out. They generally do that for about a month or so to make sure it's all working right, and then they light up all their stores nationwide.

Amy Norflus: Alright, perfect. Well, great job, guys. Keep it up. Thank you.

Bryan Lewis: Thank you very much.

Operator: Thank you. Our next question is a follow up from the line of Roger Liddell from Clear Harbor Asset Management. You are now live.

Roger Liddell: Continuing on the theme of enrollment periods and--that you need for large complex retailers, an on-boarding team and the longer timeframes, do you have any plans to have for mom and pop, or smaller retailers, a self enrollment kind of software, so you don't need those assets and onboarding team tied up to implement?

Bryan Lewis: Yeah, absolutely, Roger. One of the things we're doing is we have moved--I guess, two things to explain. Most of our products had been in the Apple B2B store, which is a lot more complicated for a merchant to download. They need to have something called a volume purchasing plan number and some other things that many of them don't have. We're moving or have moved our products into the regular Apple store, because we were able to put a lot more controls on who can download and access to the system and other things. So, we felt comfortable putting it in a public store.

That means if a mom and pop store wants to be able to check and authenticate an ID before they fill out the application, they will be able to download the product onto their smartphone or tablet and use the product. And I think it's important for them, because, generally, those small stores, the credit card that's going to be issued is in the bank's name, right? It's not like, I open up local jewelry store and Bryan's jewelry. I'm not going to get a white labeled card. I'm going to get one from a bank that's going to back me, but I eat 100% of the fraud. So, it is a very easy trade off for them to say the cost of the product certainly outweighs any of the losses that I would get. And yes, we will, in short order, have it very easy for them to self enroll.

Roger Liddell: Okay, that's useful. A final question, you gave the figure of, if I wrote it down right, 6.94% fraud prevention rate using law enforcement or Law ID versus 2.67 for retailers, generally. Is that discrepancy enough to--is it relevant to driving faster implementation, or is that a nice to have--it's a tailwind, but not relevant?

Bryan Lewis: Okay, just so--just to make sure that I clarify a few things there. The 6.94 is the fraudulent rate that we see when law enforcement goes out and does a scan authentication of a driver's license using Age ID. By law, we at Intellicheck cannot see anything that is done when an officer scans an ID using Law ID. We are not sieges certified. We are not sworn law enforcement officers. All of that happens in the inlets cloud. We see none of it. So, that number

was purely Age ID used by law enforcement, and, I'm comparing there what happens with--

when a retailer scans and they don't scan everybody. When they do a raid on an establishment,

particularly for alcohol, the cops go in and they shut all the entrances and they shut down the

bar, and they check every single person's ID. So, I think a lot of times--when somebody thinks,

oh, they're close enough, they're 25, they look like they're 21, but they're really only 20, they

don't card them, whereas the law enforcement cards everybody. So, that's why I think, it's--you

see a much higher rate. I think that 6.94 is much more indicative of the amount of false IDs

used by people--under aged people to get age restricted products.

And I do think it's a very good selling point when talking to the retailers about why they need to

put in a product because their people are not that good at checking who is real and not for two

reasons. One, I can't tell the difference between somebody who's 19 and 21. And two, I could

not tell you what my neighboring state's driver's license looks like. So, how am I going to tell if

it's real or not? Which I think all points to the reason why, as I said before, the law has got to

catch up with technology, and the law needs to require authentication.

Roger Liddell: Great. Thank you, Bryan.

Bryan Lewis: Thanks.

Operator: Thank you. Ladies and gentlemen, we have no further questions in queue. I'd like to turn the floor back over to management for closing.

Bryan Lewis: I just wanted to say thank you everyone for attending the call. Thank you very much for your questions. Specifically more, thank you for the compliments we got. I think we're on the right track. I'm looking forward to these calls throughout the year, and I hope to enjoy our next call as much as I did this one, so thank you very much.

Operator: Thank you, ladies and gentlemen. This does conclude the teleconference for today. You may now disconnect your line at this time. Thank you for your participation and have a wonderful day.