

Second Quarter 2015 Earnings Conference

August-14-2015

Confirmation # 13615414

Page 1

INTELLICHECK MOBILISA, INC
Second Quarter 2015 Earnings Conference
August-14-2015
Confirmation # 13615414

Operator: Greetings, and welcome to the Intellicheck Mobilisa Second Quarter 2015 Earnings Announcement. 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.

I would now like to turn the conference over to your host, Ms. Sharon Schultz. Thank you, Ms. Schultz. You may now begin.

Ms. Sharon Schultz: Thank you, Operator. Good day, and welcome, everyone. Thank you for joining us today for our 2015 Second Quarter Conference Call to discuss Intellicheck Mobilisa's results for the fiscal quarter ending June 30, 2015, and to discuss other business developments.

In a moment, I will call upon our CEO, Dr. William Roof, to lead today's call and introduce the members of the Intellicheck Mobilisa management team who will be participating in today's conference call.

Before I do that, 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 [unintelligible] no obligation to and expressly disclaims any obligation to update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events, or otherwise. Additional information concerning forward-looking statements is contained under the heading

Second Quarter 2015 Earnings Conference

August-14-2015

Confirmation # 13615414

Page 3

of Risk Factors listed from time to time in the Company's filings with the Securities and Exchange Commission.

Management will use the financial term adjusted EBITDA in today's call. Please refer to the Company's press release issued this morning for further definition of and context for the use of this term.

I would now like to introduce Dr. William Roof, Intellicheck Mobilisa's Chief Executive Officer.

Dr. Roof?

Dr. William Roof: Thank you, Sharon. Good day, and welcome to the Intellicheck Mobilisa Q2 2015 earnings call. Today, we will present corporate earnings information for the quarter ending 30 June 2015. After the call, we will answer questions from shareholders.

Intellicheck Mobilisa directors and officers present on this call today are Admiral Mike Malone, Chairman; General Buck Bedard, Director; General Jack Davis, Director; Mr. Guy Smith, Director; Mr. Bill Georges, Director; Mr. Bill White, Chief Financial Officer; Mr. Bob Williamsen, Chief Revenue Officer; and myself.

Our Chief Financial Officer, Bill White will now review the Q2 2015 financial results. Bill?

Mr. Bill White: Thank you, Bill. 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, 2015 which we released this morning. We anticipate that our quarterly report on Form 10-Q will be filed with the SEC this afternoon.

Revenues for the second quarter ending June 30, 2015 increased 91.5 percent to \$2,292,000 compared to \$1,197,000 for the previous year. Identity system revenue increased 97 percent to \$2,023,000 compared to \$1,025,000. And wireless revenues increased 56 percent to \$269,000 compared to \$172,000 last year.

Booked orders for the three months ending June 30, 2015 were approximately \$2,909,000, up 28 percent compared to \$2,267,000 for the second quarter of 2014. Our gross profit was \$1,041,000 for the quarter, or 45 percent of revenues compared to \$749,000 or 63 percent of revenues for the second quarter of 2014.

There was a decrease in overall margin for the quarter related to a large hardware sale to a global telecommunications provider. This customer has been utilizing our software for several years in their corporate stores, and this hardware purchase was to expand the program to their dealer network. We expect margins to resume historical ranges going forward.

Operating expenses, which consists of selling, general, and administrative, and research and development expenses, increased 22 percent or \$408,000 to \$2,259,000 for the three months ending June 30, 2015 from \$1,851,000 for the three months ending June 30, 2014. The increase in operating costs were related to non-recurring consulting agreements for rebranding, website development, and for the payment of legacy consulting agreements, non-cash stock-based compensation expense, and higher sales commission on increased sales.

Adjusted EBITDA for the quarter ending June 30, 2015 improved 15 percent over Q2 2014 from a negative \$952,000 to a negative \$809,000 for the quarter. The company posted a net loss of \$1,214,000 for the three months ending June 30, 2015 compared to a net loss of \$1.1 million for the quarter ending June 30, 2014.

As of June 30, 2015 our backlog, which represents non-cancellable sales orders for products not yet shipped and services to be performed, was approximately \$1,046,000, decreasing 17 percent from \$1,263,000 at June 30, 2014 and increasing 97 percent from \$530,000 at December 31, 2014.

I'd like to focus on the company's liquidity and capital resources at this point. As of June 30, 2015 the company had cash and cash equivalents of \$7.5 million, working capital defined as

current assets minus current liabilities of \$7.5 million, total assets of \$21.4 million, and stockholders' equity of \$18.5 million.

During the first six months ending June 30, 2015 the company generated net cash of \$4,937,000 compared to \$3,541,000 generated for the first six months of last year. Cash used by operating activities was \$2,494,000 compared to \$1,643,000 in 2014. We used cash of \$197,000 in investment activities compared to \$63,000 in 2014, and we generated net cash of \$7,628,000 from financing activities in 2015 compared to \$5,247,000 in 2014.

During 2011, the company entered into a two-year revolving credit facility with Silicon Valley Bank. In 2014, the company extended this line to October 15, 2015. Maximum borrowing under the facility is 2 million and are subject to certain limitations based on a percentage of accounts receivable as defined in the agreement, and are secured by substantially all of the company's assets.

At June 30, 2015 there were no outstanding borrowings, and unused availability under the facility was \$358,000. We currently anticipate our available cash as well as expected cash from operations and available under the credit facility will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

I'll now turn it back to Dr. Roof.

Dr. William Roof: Thank you, Bill. We are excited about our progress and our solid second-quarter. The entire Intellicheck team is eagerly anticipating a bright future for the company. Looking back in Q4 2014, we set the company's strategic goal of market leadership with world-class products and sustainable profitability. We developed a strategic plan and are implementing that plan each and every day. We are particularly pleased that our reengineered products are quickly gaining customer traction, and we expect to see greater account growth with existing clients as well as significant numbers of new customers.

The pillars of our business are evolving with product innovation into a rapidly-growing identity authentication market, our services pricing model that fits all retailers and other customers and the new management team that is implementing this vision.

As with previous addresses to our shareholders, I will focus this presentation on five main areas and talk about progress in each area. Those areas are: resources, markets, products, processes, and intellectual property.

Resources. Our company is well-capitalized and we are moving ahead in executing our strategic plan. I believe that we have the capital we need to execute the plan, and we have

implemented new financial models that focus on high-margin recurring revenue business. Our management team continues to refine our processes for maximizing value and effectiveness as we move ahead with the plan. Our new company culture provides the foundation for growth, and we are extremely optimistic about our future. We are leveraging expertise both from within and from outside the company to execute the strategic plan and vision.

Markets. We have completed phase 1 of our rebranding plan, and I invite you to visit our website at intellicheck.com to see the initial results of our efforts in achieving this stated goal. We believe this new branding is the beginning of the product and marketing positioning our company needs to grow and flourish. When you visit intellicheck.com, you will find all new positioning and messaging, product naming and trademarks logo, and corporate ID and taglines that we will use as a key part of our brand identification as we move forward. As a result of these rebranding efforts, we fully expect to see a new and previously unseen level of market awareness about our company and our products.

As we move forward with our marketing strategy, we will focus on digital marketing, meaning that we will use our new website and rebranded materials to build market awareness and to keep refreshing our contacts with prospects and customers resulting in expanded business. This is very cost-effective in providing interactive communications pathway for our customers.

We expect our digital online presence to increase our sales efficiency and reduce our selling costs.

A few words about our strategic communications initiatives. These efforts are focused on creating brand value, visibility and market awareness as critical first steps in the sales process. In addition, these efforts address the vital needs of building investor confidence utilizing mainstream media, trade press and social media coupled with our new digital online presence.

Our new public relations firm has arranged interviews that reach millions of listeners and viewers. For example, our interviews ran on the Jim Bohannon Morning in America show that reaches 190 million weekly listeners, heard on 449 radio stations in 94 US markets, and the American Urban Radio Network that reaches more than 20 million weekly listeners who tune into more than 300 radio stations nationwide. We have also been featured by military.com, an online publication that serves over 10 million military.com members and over 5.7 million unique monthly visitors.

Our efforts in Q2 have led to positive media stories in addition to a flow of affirmative news through press releases. Interviews have allowed us to deliver key messages to our target audiences with a focus on new product innovations that become benefits driving customer acquisition as referenced by our marquee accounts.

In addition to support for marketing and sales initiatives, public relations efforts supporting partnership such as with American Beverage Licensees and SkyTouch Technologies open new channels to communicate with potential customers while supporting current customers with mutually beneficial media efforts.

Products. We will speak about advancements with our products during Q2.

Law ID. First, some information about this new product. Intellicheck Law ID enhances an officer's situational awareness by minimizing the loss of visual contact with an unknown person during a field contact. Because it is available on mobile devices, Law ID ensures the officer has one hand free at all times whether on foot, bicycle, horseback, motorcycle, or in a car.

With Law ID, the officer simply scans the contact's ID barcode and it is instantly authenticated on the officer's mobile device. Critical data fields that indicate the threat level are highlighted in red, yellow, and green, and visible at a glance. Having authenticated the contact's identity, the officer can act accordingly, immediately de-escalating a potentially tense situation.

Best of all, when the officer returns to the station, Intellicheck makes reporting faster and more accurate by automatically populating standardized form fields from the data retrieved during

the ID authentication and from the mobile device's reporting features, including location and weather information. Law ID instantly accesses critical authoritative data sources, increases officer and citizen safety, provides the officer with accurate relevant data at a glance, and supports faster, more accurate reporting.

We've begun penetrating our target markets with our new Law ID product. We recently published a press release announcing that we are beginning pilot evaluations with three police departments in three different states to undertake pilot programs using our Law ID product. We are excited that these agencies include a major Metropolitan Police Department, a police department on the outskirts of one of our nation's largest cities, and a sprawling largely rural department. We believe that these pilot programs demonstrate the product scalability and applicability to a variety of law enforcement agencies in operational environments.

We are also excited to announce that our Law ID product has been approved for connection to the FBI's Criminal Justice Information System, also known as CJIS.

At this time, we are working closely with law enforcement visionaries and innovators recognized as leaders who like to engage and help advance new products and solutions that bring value to their local communities, law enforcement departments, and respective officers and staff.

We have a compelling product that delivers compelling value, and we have many agencies interested in utilizing this important new tool. We will learn and create leverage from these early innovators to move this product quickly through the new product adoption stages with the goal of shortening the time it takes us to reach the early and late majorities that comprise approximately 70 percent of the available market estimated at approximately \$300 million in annual revenues.

Age ID. Selling age-restricted products like alcohol and tobacco is a compliance challenge. The risks and costs associated with noncompliance are high and rising. We believe that Intellicheck Age ID is the answer. Age ID instantly authenticates identification documents such as driver's licenses. So, our retailers immediately know if the customer's ID is fake. That reduces risks of noncompliance without slowing down the purchase transaction. Best of all, Age ID works with mobile devices or integrated with existing point-of-sale solutions.

We developed our Age ID product to curtail underage drinking because proprietors who serve alcohol are also members of their communities who understand their obligations to their fellow citizens. Our Age ID product increases their awareness of fraudulent credentials by instantly and accurately authenticating customer identification.

Age ID also verifies that the individual purchasing restricted goods is using an authentic identification document and is old enough to make the purchase. With the ability to read more than 200 unique barcode formats from all US states and Canadian provinces along with other US government forms of identification, Age ID provides the most accurate and up-to-date solution.

Age ID also offers regulatory compliance audit capabilities often needed by proprietors to demonstrate compliance with state regulations, or to earn discounts from their liability insurers. Age ID is available as a subscription service or customized solution designed to meet our clients' specific needs.

Let's talk for a moment about our partnership with ABL, the American Beverage Licensees organization. American Beverage Licensees is the preeminent national trade association for independent retail beverage alcohol license holders across the United States. ABL's members, who number nearly 20,000, are comprised of on-premise bars, taverns, restaurants and casinos, and off-premise package stores, retailers. It is important to note that an ABL member may represent more than one retail location. In some instances, a member may represent many retail locations.

Our partnership with ABL has begun to generate business for Intellicheck. We ask that you watch for future press releases that will describe the advances we have made into the age verification market with this new product and hope that you will be as excited about our momentum as are we.

Processes. This quarter, we focused mainly on our sales and product development processes. Having validated our products and markets, we added two new sales professionals to the team. These sales professionals are proven performers known personally to Bob Williamsen and myself who are already making a significant impact and closing new business.

Additionally, we are excited about our bench of sales pros standing by to join the team as we move ahead. We are improving our product development processes and now have two outsource partners with whom we work to accelerate the development of new products and offerings.

Time to market is critical, and we now have the capability and increased capacity to quickly implement key features and functionality that will result in faster growth. Our outsource development partners provide the surge we need to get work done quickly, efficiently, and with top-notch quality.

Intellectual property. We continue to work with law firms potentially interested in taking our infringement cases on a contingent basis. We have filed one patent infringement case, and this case is working its way through the courts. We are moving ahead with our continued defense of our intellectual property.

Generally speaking, we continue to implement our strategy defined by our previously identified five pillars. Those being: one, to operate as efficiently and effectively as possible; two, to focus on developing our key competencies into world-class products; three, to manage our product offerings with the goal of focusing on value and scalability to our customer base; four, to establish a position with market recognition and leadership based upon our core competencies and world-class products; and five, to define, implement, and nurture a culture that supports this transformation.

We are transforming our organization to support our objective of market leadership with long-term and sustainable profitability. We have begun launching products and services that our customers need and appreciate. We are excited and optimistic and believe the investments in resources and products as noted above have positioned us to deliver world-class solutions to our customers with sustainable top and bottom-line growth to our shareholders.

In summary, thank you for your attention today. We look forward with great optimism and excitement to executing our strategy as we move the company forward. Sharon will now begin our conversations with shareholders.

Ms. Sharon Schultz: Thank you, gentlemen. We'll proceed.

Dr. William Roof: We will start with Alex Silverman.

Mr. Alex Silverman: Can you hear me?

Dr. William Roof: Yes. Good morning.

Mr. Alex Silverman: Good--how are you? So, wondering--I apologize. You went through the mix of revenue faster than I could jot it down. Could you just repeat the mix of revs again and where the growth came from?

Mr. Bill White: Yeah, Alex. Bill White. Identity system revenues were at \$2,023,000 compared to \$1,025,000.

Mr. Alex Silverman: Okay.

Mr. Bill White: Wireless revenues were \$269,000 compared to \$172,000.

Mr. Alex Silverman: Okay. That's helpful. Thank you. And then you mentioned the reason behind the lower margins was a large hardware sale to a telco service provider who is expanding. Can you give us a little more detail on that?

Dr. William Roof: Sure. This is Bill. This is a customer we've had for a long time. We're out working with our customers trying to get them to expand, number one. And number two, to try to get them on to our SaaS model. And we are having some worth with that, and some are happy with where they are as far as having more like an enterprise model in place. And we're fine with that because that's generating good cash for us.

While we do have a large hardware sale like this, obviously we sell our hardware at lower margins than we do with our software.

Mr. Alex Silverman: Yeah.

Dr. William Roof: And that will skew the margin downwards. We're going to have this type of thing happening with our legacy customers. We're trying to get it into a place where it's

predictable and we can schedule their hardware refreshes so that it kind of evens out our revenues.

And in those cases, the margins will come down. But the cash it's generating while we're doing our turnaround, company turnaround and transition, is really good for us. And the fact that these customers are sticking with us and they're trying to buy more of our products and services is really good news. So, I think you can expect to see this type of thing in the future as well.

Mr. Alex Silverman: Does it come with any recurring on the back end?

Dr. William Roof: There is some recurring on the back end, yes. And as we move forward and we start to sunset our products and bring in new or improved products, we'll be seeing our--we expect to see our recurring increase.

Mr. Alex Silverman: Okay. And was this order completed in the quarter or will it bleed over into the third quarter?

Dr. William Roof: We don't like to give guidance, but I'll just say that--I'll go ahead and say that it was not completed--

Mr. Alex Silverman: It was not--

Dr. William Roof: In Q2.

Mr. Alex Silverman: Okay. And can you give us a sense of how much of the revenue in the quarter it was represented by this telco customer?

Dr. William Roof: I don't think we want to do that right now, Alex.

Mr. Alex Silverman: Okay.

Dr. William Roof: Because that's going to give--it's going to mean forward-looking information into the next Q. And once we get the turnaround complete and we're predictable in our revenues, then we have discussed, as we are going to start looking at giving guidance at that point.

Mr. Alex Silverman: Okay. Very helpful. Thank you.

Dr. William Roof: Thank you very much.

Operator: Our next question is from the line of Tom McGuire. Please ask your question.

Mr. Tom McGuire: Hey. Good morning, gentlemen, and thanks for taking my call. And congratulations on the transitioning of the business, and the rebranding, and the introduction of the new products and services.

My question is--in the prepared remarks, you made the statement somewhat to the effect that you offer compelling products which offer compelling value. My question is: When you go into an existing customer and try and change from the enterprise model to the SaaS model, or you go into a new customer, what is the reluctance or hesitancy in signing some customers up?

I mean, I'm coming from the idea that I would think that the value proposition is compelling. And so, what's the hang-up if there is a hang-up, is it just working with really large bureaucratic managements, or what? Why don't you just kind of fill me on some color there?

Dr. William Roof: Sure, Tom. I'm going to ask Bob Williamsen. Bob, you're on the line. You're very, very close to this. We all are obviously. But, Bob, would you go ahead and articulate that? Looks like we may have lost Bob, so I'll go ahead and respond to that.

Mr. Bob Williamsen: No, I'm still here. Can you hear me okay?

Dr. William Roof: Yeah, now we can hear you.

Mr. Bob Williamsen: Okay. Sorry about that. Yeah, I think it's a good question. In essence, we do offer not only compelling products that have significant value to these companies in these various verticals that Bill spoke to. I think the key thing that we see though is, if like anything, is where is that organization, particularly the larger organizations in terms of their priorities, and making sure that we become part of those priorities.

There's a lot of movement in the retail sector right now toward EMV standards coming this October 1. Many of our current customers and many customers that we're speaking to currently in terms of new business are also on the throes of re-evaluating point-of-sale systems or upgrading their point-of-sale systems. And so, from a priority and timing perspective, we have to navigate through that on a case-by-case basis.

So, the good news is as we--in fact, I was just on a call earlier today with another prospective retailer that sees tremendous value in the products. We're working with them on their timing and their roadmap so that we can talk about how we can position our solutions to meet their

needs and roll out with them. And we're having those conversations with companies around the country to do just that. So, it's a process that takes some time.

We said at the beginning of the year that, as we move forward with these new products and a new team, that 2015 is year of transition, will be a time to get us positioned and create awareness in the market of the solutions that we do offer, and get positioned and prioritized with these organizations, so as they are ready to move and expand, we're ready along with them. So, I hope that helps answer your question.

Mr. Tom McGuire: Okay. Thanks. And keep it going. Thank you.

Mr. Bob Williamsen: You bet.

Dr. William Roof: Thanks very much, Tom.

Operator: Our next question comes from Ronald Shire, a private investor. Go ahead with your question.

Mr. Ronald Shire: Yeah. Bill, Roof, this is Ronny. Rumor has it I was very pleased to see the results of that quarter. I hope you keep it up. Law ID, are we getting paid for these pilots that are going on?

Dr. William Roof: The pilots are--we're not getting paid for those. When they convert after the pilot, that will be on our SaaS model.

Mr. Ronald Shire: And how long are the pilots expected to last?

Dr. William Roof: No longer than 90 days.

Mr. Ronald Shire: Okay. And have we explored the possibility of using technology for background checks for gun purchases and that type of thing, and can we add into our background checks into people that might have psychological disorders, you know, the kind of things that are very currently in the news today?

Dr. William Roof: Yeah. That's a great question, and I think it's on a lot of people's minds, Ronny. We can add that type of information, we can add those queries into our system. And as long as that information is available to law enforcement in that they see those responses and we don't, which is the way the system is setup. It's very, very focused on privacy issues.

So, the way we've designed the system keeps us from seeing that data. But you're absolutely right. We have a lot of different ways we can use this system not only in the law enforcement officer's hand, but for gun purchases and so forth. We're investigating all of those right now. We're seeing some real movement and interest in that. So, you're right, you're dead-on with that, Ronny. That's something that we believe is a feature set that we can add to the overall system.

Mr. Ronald Shire: And the current people that we have that are interested, are we approaching--who do you--where do you start? Do you go all the way down to the smallest legal subdivision that has law enforcement, or do we go to the states, or do we do it at a federal level, or all of the above? How do you approach this? Because it's a huge market. Can you give us a little idea of what you've got going now?

Dr. William Roof: I think it's all of the above, Ronny. So, we're--if you remember, we mentioned that we were going to do direct sales and we were going to use channel partners, and we've been using that as part of our strategy as we've moved forward. And we've used both, and what that's done for us is we know a lot of people who are tied into the law enforcement world. They're making some wonderful introductions for us, including our board members. That's really fabulous.

And we also have our own private contacts, and we've gotten into channels now of organizations and so forth that help us sale. So, we're hitting it from 360 degrees, we're finding some really good traction there.

And to be honest with you at this point, it's a new product. We're focusing on the product innovators. If you remember the product lifecycle, you start with your innovators and you got your early adopters, and you had your big chunk in the middle where you've got about 70 percent of your sales. And then it kind of goes down, on the downside of the product lifecycle. We're right in that innovator stage right now, and we're finding the innovators, the people who are willing to move forward with a new technology. We're not having any trouble finding those people, and that's really good for us.

So, you've hit it. We're hitting this from all angles. We're not depending on just our sales force to go out there and turn over rocks. That wouldn't be efficient. So, we've got a plan in place, and it appears to be working.

Mr. Ronald Shire: Very good. That's all I have. Thanks.

Dr. William Roof: Okay. Thank you, Ronny.

Operator: Thank you. If you'd like to ask a questions, press star-one from your telephone keypad. Our next question is from the line of Amy Norflus with Neuberger Berman. Please proceed with your question.

Ms. Amy Norflus: Hi, guys. Congratulations on coming up with a plan and starting to deliver. And the enthusiasm in your voice, it seems like you're starting to get traction. Can you tell us a little bit more insight into revenues and how we should understand them? Should we understand it as a SaaS model, should we understand it as, you know, getting the hardware in and then getting the recurring? And, you know, with American Beverage, how do try to understand how that helps the revenue? I mean, we have a hotel platform, we have Law ID. Kind of bring it all together for us a little bit. And then you alluded that margins will go back up once, you know, going forward. How should we understand the margin structure?

Dr. William Roof: Well, Amy, you know, we have--we're evolving. We have traditional customers and traditional products where we bundle hardware, so we sell both hardware and software. A great example of that is Defense ID. So, we go to a military installation, we sell hardware and our software, and we also sell services that may go out three, four years. So, the software and the services are recurring. The hardware is a one-time deal.

But then we have what we just saw this quarter, we have these customers coming back to us. They have plans in place and say, "We're going to do a hardware refresh. We're going to replace our hardware after three years." Pick a number. It's typically three years as what we see standard. And then they'll come back to us and say, "Okay, we're ready. We want to replace our hardware with the latest equipment. And, you know, give us a quote on the price." So, those are lower margins. We get a--we wind up with a blended margin when we do that type of work.

On the SaaS model, which is our Age ID mostly, and our Law ID, we're going to see high margins and it'll be monthly subscriptions. So, you're going to see a blend in there, Amy, as long as we have the capability to sell bundled systems like Defense ID, and some of the systems we're selling under retail, and that's going to--depending on when people do their hardware refreshes, you might see the margins drop somewhat because we've got a larger blend of hardware than we do software.

But we're--you will see, and we hope to see, and we're planning to see. It's in our plan that the margins [unintelligible] increase as we increase our SaaS business, and that's a lagging business.

So, for example, if we signed up a hundred stores right now and got x dollars, we'd get 1/12th of that x next month, and we'd get 2/12ths of that for the following month. And it would build

up until we are at a year, and then we start getting our annual revenues out of that. So, when you're starting a SaaS model, you ramp up, and then the debt will level out. So, that's where we are.

Ms. Amy Norflus: Okay. And we're just ramping. The Law ID, you said it was a \$300 million addressable market. What realistic--I mean, what should we realistically assume that you can capture in the market, and are they using their own devices or are they using another third-party device, how is that working when they're capturing their data?

Dr. William Roof: We have some numbers in here that we--assumptions that we've made on market share we can capture. If I were to release that now, that's forward-looking and that's almost like giving guidance. So, you know, we've had some investors say, "Well, we're going to assume you're going to get x percentage." I think you ought to go with your assumption on that, Amy. As far as the devices--

Ms. Amy Norflus: --Well, then maybe--okay. Sorry. Because it will--

Dr. William Roof: --As far as--

Ms. Amy Norflus: --Is there competition--

Dr. William Roof: --Go ahead.

Ms. Amy Norflus: Right now? So, is it safe to say that, you know, you're the only game in town for this product?

Dr. William Roof: We're finding competitors, but we don't believe that they have the same feature set, we don't believe that--they can't use our IP. Our IP is built into this, and so we think we've got a head-start on this.

We're very, very excited about this product. The fact that we released it in June and we've already got deals in place really excites us. We've got a lot of interest in it. And we're sure that once it's out on the street, there will be more interest. And the type of deal we're putting in place is we are asking our innovators to participate in joint-marketing with us and to do things like allow us to go on ride-alongs and take videos of our product being used, actually used in the field. And we'll be able to show the investors that once we do that. And I think that's going to generate a lot more interest in the product.

Mr. Guy Smith: Bob, this is Guy Smith, a Board Member. If I could just amplify a little bit on the Age ID for example and the pieces of this that are relevant to all of our products, but an element of our product that does not exist in what competitors there are is the following.

There are a lot of our products on the market out there that will read a barcode and tell you what the barcode says. So, therefore, it's the same words on the front, as the barcode on the back. But what that does not do is validate the data with the DMV data, and our product does, nobody else can do that. So, that is a point of distinction that is very important, particularly in the--excuse me, in the alcohol and tobacco verification processes.

Thank you.

Ms. Amy Norflus: Great.

Dr. William Roof: Thank you, Guy.

Ms. Amy Norflus: Can you touch upon--I'm sorry. The hotel platform, I mean, and how big that--not--without giving guidance, but just kind of, you know, qualitatively talk about how excited you are or which division you're the most excited about?

Dr. William Roof: Sure, Amy, we'd be happy to do that. I'm going to ask Bob. Bob is working on that every day, and you might see that we just recently signed an agreement with SkyTouch who is a company--that is a company that develops property management systems, and we're doing an integration with them. Bob, do you want to address Amy's questions on that?

Bob Williamsen: Sure. Sure. Amy, it's good to hear from you, and thanks for listening in today. We think--in fact, we were just recently at HITEC, which is the hospitality information technology show which was earlier this summer back in mid-June in Austin, Texas. And we launched our relationship with SkyTouch there.

SkyTouch is a real strong and growing company that develops property management solutions that are used by about 6000, 7000 properties around the world. And they are--we're affiliated and were born out of Choice Hotels. So, kind of that's their background. So, we see some great opportunities to network through the industry.

And because of our relationship with SkyTouch, we've already integrated into their property management system. That work is already done. We demoed that at the show. We've already got interest, we have customers starting to reach out proactively to us and talk to us about the solution. In fact, we're just kicking off now our more aggressive market awareness

and sales strategy campaign with SkyTouch for example. And we'll continue to do that with other channel partners, so that's just one example.

We see that the hospitality space is an important space in terms of probably the top four, or five, hospitality is probably ultimately more around number four, number five in terms of opportunity. So, we're trying to stay very focused and close business where we can and look for those quick sale cycles.

Some other markets, for example, Retail ID, the opportunities are much larger, but the sales cycle slower because of the reasons I mentioned before, things like EMV standards and point of sale integrations, and that sort of thing, and having to work into their priorities. So, our objective is to make sure that whether it's Guest ID, which is the new name for the hospitality product, or Law ID, as you and Bill were just talking about, or Age ID that Guy Smith just mentioned, or Retail ID. And we have enough traction in all those markets so we can continue to grow each market and ramp up accordingly.

And so, yeah, hospitality is--looks to be pretty interesting. We think Age ID is going to get very exciting. As Guy Smith just spoke to, our relationship with ABL is already starting to bear fruit. We're actually live in a few handful of accounts from our conference that we attended with ABL, their annual conference just earlier in June in Washington DC. There's a great deal of

interest there because it's incumbent upon these retailers to make sure that in an age-restricted purchase that they are compliant, and it varies market by market, the various compliance regulations and potential issues that can impact their business. And these retailers are very mindful of that, and they want to be very responsible with the way they go to market and sell these products.

So, they've embraced us very nicely. We see a great deal of opportunity there. And with 20,000 members, we think we can gain a lot of traction over the next year through that partnership.

So, you'll see and hear more about those things as we go forward. But I wouldn't say there's one market right now that we just as, you know, where all the new business is going to come from. But just to follow on the hardware sales and other things you mentioned too, everything we're doing right now is to grow, and drive, and position this company for recurring high-margin predictable revenue growth through the SaaS model.

And Age ID, and Guest ID, and Law ID, and Retail ID, are the products that will help us get there.

Does that makes sense, Amy?

Ms. Amy Norflus: Crystal clear. Yeah. The association with the ABL, ultimately what you'll use is their salespeople I guess to sell your product because once you're on their platform or approved list, they'll start directing customers to you. And then it becomes a, you know, a snowball effect?

Mr. Bob Williamsen: Yeah. Yeah. So, although I do want to qualify that in the sense that they're a wonderful organization to work with, and they've been very helpful to us so far. They are a small organization, so they don't have a footprint of salespeople out in the marketplace. What we're--and--but what they do is they market very smartly. And we're working very closely with their teams to get our information through their electronic newsletters and the like out to all their members. So, we think that's very efficient, we're going to leverage that as effectively as we can because, again, there is a lot of value in it for their members, and ABL wants to make sure their members have awareness about Age ID. And so we're launching some new programs with them, we're working very closely with their team and through our PR department to make sure that we get the message out.

And as Bill mentioned earlier in this call, now that we have phase 1 of the branding done, Amy, you're going to see and hear much more about our efforts to proactively push out digital marketing and digital messaging to create the awareness that we need. And we're going to do that with ABL, through a relationship there. We'll do it with other partners as well. And that's

going to be the thing that will start getting the phones ringing, getting the inbound calls coming to us, which will help us continue to build the pipeline.

Mr. Guy Smith: [Unintelligible] Guy Smith again. In addition to what Bob just said, there are activities that will help. The other day, the state of Louisiana does an annual basically sting operation for all of the retail alcohol operations in the state. And about 4500, 4700, when they did that, about 1500 of them failed. That is, they sold alcohol to someone who was underage. That's 1500 retail operations that suddenly have a particularly good interest in our product, and we'll be communicating directly to them because it's public info. There's a list, and we'll be communicating to them, and of course through the ABL as well.

Ms. Amy Norflus: [Unintelligible] you guys, this sounds very exciting, and it's been a long time coming. And I guess the new sales people that you added will only add and help to the cause?

Mr. Bob Williamsen: Yes, absolutely, Amy. We're excited. We're very excited, very enthusiastic. Getting great feedback on the products and solutions that we've talked about. The two new sales folks that George--or, excuse me, that Bill mentioned earlier are doing a great job. And we've got a bench as Bill mentioned that as we continue to ramp, Amy, what we will do is we'll look at when is the next time to bring more folks on board. We want to make sure that we don't ahead of that curve. But as we get out there and we're getting traction and

building that pipeline, the other thing that--in the process side of this that we've implemented over the course of Q2 is our new CRM tool, our customer relationship management tool.

So, for the first time in the history of this company we've got everything detailed into a very detailed pipeline tool that allows us to really track and have visibility to where all of our deals are, where they're pending. And that helps us be more efficient and smarter as we go to market. So, we'll continue to leverage those tools, leverage the new team, and grow the team as we grow the products out in the field.

So, obviously, again, we're very excited. There will be more information to come as, you know, as we get together again in the fall. But we like where we're headed so far.

Ms. Amy Norflus: Um-hmm. Perfect. It sounds like you guys are doing a great job.

Mr. Bob Williamsen: Thank you, Amy.

Ms. Amy Norflus: Good luck.

Mr. Bob Williamsen: Thank you.

Operator: As a reminder, to ask a question you may press star-one from your telephone keypad. The next question is from the line of Dennis Van Zelfden with Brazos Research. Please go ahead with your question.

Mr. Dennis Van Zelfden: Good afternoon, gentleman. Can you tell me roughly how many different law enforcement agencies you have talked to about the Law ID product?

Dr. William Roof: We don't have those numbers in front of us, Dennis. We're talking to new agencies every day.

Mr. Dennis Van Zelfden: Okay.

Dr. William Roof: And since we're not product-vertical with our sales force, all the salespeople are working on selling all the products. So, we could have had discussions this morning that we're not aware of yet. They haven't been entered into the CRM tool. So, I really don't have that number for you.

Mr. Dennis Van Zelfden: Okay. But it kind of leads to--my main question is: When any one or all three of these pilot actually sign a contract, what will that do to anyone else out there sitting

on the fence, will it lend credibility to it, will it be like dominoes after that, or will it still be a long process to convince X, Y, Z police department to adopt Law ID?

Dr. William Roof: That's a great question, Dennis. We believe it'll be a domino process. And the long-haul intent for this is getting a connection to the state switch, and we're in the process of that right now with these three. The first long haul was getting CJIS certified, the FBI system certified, which we just got, and very, very happy about that.

Once we get established in one department, in one state, and we had a connection to that state law enforcement network, then it makes it real, real easy for the other departments and agencies in that state to come onboard. And so, we look at it and we envision it as more of a domino effect after we're in our first department in each state.

Mr. Dennis Van Zelfden: What is a state switch? I don't understand that term.

Dr. William Roof: The--there's a gatekeeper for the law enforcement network in each state. Typically, it sits at the state police or state patrol level. And to be able to connect to the law enforcement network and run queries on DMV for driver's license information whether it's suspended, revoked, et cetera, then to run into the state law enforcement data sources, which

will tell you things that won't exist or may not exist at the federal level, such as restraining, those files on restraining orders and so forth, you have to go through that switch for that.

And then that switch also pushes your queries out to the federal systems, the federal law enforcement. We talk about NCIC, the National Crime Information Center, that's the FBI's center that has the most-wanted--it'll have terror information, so forth. You have to go through a single point in each state for that, and getting into that point is the long-haul in the state. And once you're in, then any other organization in the state can tack onto that.

Mr. Dennis Van Zelfden: Okay. Thanks. Good job, guys.

Dr. William Roof: You're welcome.

Mr. Bob Williamsen: Thank you very much, Dennis.

Operator: Our next question is from the line of Mitch [unintelligible] with H. Capital. Please go ahead with your question.

Mr. Mitch: Hey, gentlemen. I will echo the sentiments. It really is a--you get the feel that this is really a transformational quarter that you guys just established, so congratulations there.

I'm particularly interested in the patent lawsuit that you mentioned. Are you at liberty to mention the name of the company that you're suing?

Dr. William Roof: You know, we're really not, Mitch, at this point because we're in a process where we have to be quiet about this, but we are moving ahead with this. We've also notified a number of other companies that we intend to bring action against them, and we're getting some pretty good responses from them. Some of them have asked to settle, some of them have actually shut down, so we're starting to get responses we want. I'd love to be able to tell you who this is, and hopefully we can do that a little bit later.

Mr. Mitch: All right. I would imagine it's public, some form of public information. If a case has been filed, if it's just conversations between two companies, then that would be a different story. Have you thought about hiring and doing an independent analysis of what the patents might be worth? It seems like that's a real big hidden asset in a company that has a market valuation of about \$14 million.

Dr. William Roof: Yes, we have thought about that. And what we started with, Mitch, was taking a look at those companies who we believe have been infringing for a number of years, and being able get enough information to understand how many units they've sold that have

our software embedded and we haven't been getting royalties. And we start by looking at damages there.

As far as the value of the patent portfolio, we have talked to some companies about that, and we're in the middle of conversations right now with them. And we're trying to get a good feeling for what that's worth.

Mr. Mitch: Okay. This is the last question. Has the board initiated any kind of a share buyback that I've missed?

Dr. William Roof: At this point, Mitch, we have not initiated the share buyback, but we are looking at lots of approaches to stabilizing the stock. And that has been discussed, but we haven't initiated anything yet.

Mr. Mitch: Okay. Thank you very much, and congratulations again on a great quarter.

Dr. William Roof: Thank you, Mitch. Appreciate it.

Operator: Thank you. At this time, I will turn the floor back to management for further comments.

Dr. William Roof: Well, we want to thank everyone today for joining the earnings call and for your questions. We certainly appreciate all our shareholders, and we hope that you share our enthusiasm for what we see ahead, and that you continue to support us in wonderful fashion as you have been as we transition the company and get our new products out on the market and get some wonderful traction. So, once again, on behalf of the entire executive team and our Board of Directors, thank you very much.

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