

INTELLICHECK MOBILISA, INC.
First Quarter 2016 Earnings Call
May-13-2016
Confirmation # 13636793

Operator: Good day and welcome, everyone. Thank you for joining us today for the 2016 First Quarter Conference Call to discuss Intellicheck Mobilisa's results for the fiscal quarter ending March 31, 2016. My name is Kevin and I'll be your Operator today. In a moment, I will call upon Intellicheck's CEO, Dr. Bill Roof, who will lead today's call and introduce the members of the Intellicheck Mobilisa Management Team who will be participating in today's conference call. Following Management's prepared remarks, we will open up the call for questions.

Before I turn the call over to Management, 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 as a result of such changes, new information, subsequent events, or otherwise. Additional information concerning forward-looking statements is contained under the heading of Risk Factors listed from time to time in the Company's filings within 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. Bill Roof, Intellicheck Mobilisa's Chief Executive Officer. Dr. Roof?

William H. Roof, Ph.D: Thank you. Good day and welcome to the Intellicheck Mobilisa Q1 2016 Earnings Call. Today we will present corporate earnings information for the quarter ending March 31, 2016. After our prepared remarks, we will answer questions from Shareholders.

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Intellicheck Mobilisa Directors and Officers present on the 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 quarter ending March 31, 2016 financial results. Bill?

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 first quarter ending March 31, 2016, which we released this morning. We anticipate that our quarterly report on Form 10-Q will be filed with the SEC this afternoon.

Revenue for the first quarter ending March 31, 2016 was \$951,000 versus \$987,000 for the previous year. The Company-booked orders for the three months ending March 31, 2016 increased by 343,000 to 1,134,000. Gross profit as a percentage of revenues was 82.8% for the quarter ending March 31, 2016 compared to 60.2% for the quarter ending March 31, 2015. The increase was attributable to reduced amortization costs, along with a higher percentage of revenues coming from our new SaaS model and lower equipment sales.

Operating expenses, which consist of selling, general, administrative and R&D expenses, increased \$1 million to \$2.936 million for the three months ending March 31, 2016, from \$1.922 million for the three months ending March 31, 2015. Five hundred and fifty-five thousand dollars of the \$1 million increase resulted from accelerated R&D efforts on two new products, our Retail ID Mobile product, which we announced this week, along with another product we will be announcing shortly. The remaining increase reflected higher non-cash stock based compensation expense, legal fees and an early termination payment of the office lease in Port Townsend.

Adjusted EBITDA for the quarter ending March 31, 2016 was a negative \$1.744 million compared to a negative \$898,000 in the quarter ending March 31, 2015. The Company posted a net loss of \$2.143 million for the three months ending March 31, 2016 compared to a net loss of \$1.302 million for the quarter ending March 31, 2015.

As of March 31, 2016, our backlog, which represents non-cancellable sales orders for products not shipped or services to be performed, was approximately \$161,000 from \$292,000 at March 31, 2015. Interest income and expense were negligible for the two periods and I'd like to now focus on the Company's liquidity and capital resources.

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As of March 31, 2016, the Company had cash and cash equivalents of \$4.1 million; working capital, defined as current assets minus current liabilities, of \$2.8 million; and total assets of \$16 million. Stockholders' equity at March 31, 2016 was \$13.4 million. During the three months ending March 31, 2016, the Company used net cash of \$1.879 million compared to generating \$6.768 million for the three months ending March 31, 2015. The use of cash takes into consideration a stock re-purchase of 979,114 shares of the Company's common stock for \$1.97 million in March.

Cash used by operating activities was \$769,000 for the three month period ending March 31, 2016 compared to \$707,000 for the same period last year. Net cash used in investing activities was \$13,000 for the three months ending March 31, 2016 compared to \$154,000 for the same period in 2015, and as previously noted, we used cash of \$1.97 million in financing activities in 2016 compared to generating \$7.629 million in financing activities in 2015.

On October 5, 2015, the Company entered into a two-year revolving credit facility with Silicon Valley Bank secured by collateral accounts. Maximum borrowing under the facility is \$2 million. At March 31, 2016 there were no outstanding borrowings under the facility. We currently anticipate there are available cash, as well as expected cash from operations, and available under the revolving credit facility, to be sufficient to meet our anticipated working capital and

capital expenditure requirements for the next 12 months. As of March 31, 2016 we had net operating loss carry-forwards of approximately \$2.2 million.

I'll now turn the discussion back over to Dr. William Roof, Chief Executive Officer.

William H. Roof, Ph.D: Thank you, Bill. Q1 2016 saw the Company continue to implement our plan to re-negotiate legacy deals, sign new customers, identify and execute agreements with channel partners, develop new products, grow our market share and pivot to sustain profitability. We believe that the strategy we planned and began implementing in 2015 is working.

Our threat identification and identification authentication markets are evolving and growing, as we continue to build barriers to entry for potential competitors. In previous addresses to our Shareholders, I focused on five main areas and talked about progress in each area: Resources, markets, products, processes and intellectual property.

Resources: our new products, developed in 2015 and in Q1 2016 are ready and we are expanding our sales force to deliver these products to our markets. Mr. Paul Fisher recently joined us in the role of Vice President, Sales. Paul has deep connections in the retailing and banking verticals and he is actively recruiting and hiring seasoned sales professionals right now.

We vacated our Port Townsend office and established a new cost effective office just north of Seattle, and near some key customers in commercial air travel. Vacating the Port Townsend office saved us \$50,000 in lease fees over the next 18 months and allowed us to re-negotiate a legacy communications contract for our phone system that will save us approximately \$60,000 a year.

Markets: we have begun to solidify agreements with channel marketing and sales partners, both commercial and government. During our last earnings call, I mentioned our white labeling strategy. We believe you will see this strategy working during Q2 of this year, so please watch for press releases we may issue. We are optimistic about our potential to reach large numbers of customers through managed channels and we will continue to grow these channels throughout the year.

Our digital marketing metrics indicate that awareness of the Company and our products is increasing throughout our markets. We see significant growth in website visits and an ever increasing number of visitors requesting to become customers on our business-to-business portal. We believe our enhanced online presence increases our sales efficiency and reduces our selling costs. We also believe that our strategic communications initiatives are creating much higher levels of brand value, visibility and market awareness.

Many of you have commented on our recent media events in Atlanta, Georgia and in Mississippi. These are indicative of our products' acceptance nationwide and of our enhanced access to the media and their corresponding support. We had positive media stories in Q1, resulting from our media strategy, press releases and other outreach. Just recently, Law and Order Magazine announced our Law ID product as a top, must have, public safety app for 2016. This, along with their article describing the product has been terrific in raising product awareness in the law enforcement community.

Products: our research and development costs for Q1 were unusually high. This is an anomaly, and resulted from a number of business opportunities, as well as contractual obligations. We saw and seized the opportunity to generate revenues more quickly by rapidly developing two new products in Q1. The costs of developing these products was high, due to the compressed development schedule, and we expect our return on investment to be realized more quickly in 2016 than if we had spread the costs over the year and subsequently recognized revenues in later quarters. One of these new products, Retail ID Mobile, will begin installation in two very prestigious department stores this month.

We also had an unfunded obligation from a contract signed in Q3 2014 that required Intellicheck to provide new system integration services, free of charge, to this customer. Free services were a condition of the contract that generated revenues in Q3 2014, but lost money

for the Company overall. Our Q1 2016 bottom line costs of fulfilling this obligation was around \$200,000.

Our legal costs were also high in Q1. We filed for new patents, both in the US and internationally, as well as for a number of new trademarks. The accumulated legal fees and support of the re-purchase of nearly one million shares of Intellicheck's stock, as well as a one-time charge of \$100,000 for terminating the Port Townsend office lease, saving \$50,000 over the remaining lease term. We also incurred legal fees in the quarter in connection with certain litigation activities regarding our patents that I will discuss later.

We also had significant proposal activity during the first quarter. In one instance, we submitted a proposal to one of the world's largest defense companies that has identified opportunities to move our technology into international markets. We were the only Company invited to submit a proposal, and we are excited about the possibility of teaming with this industry giant to expand our markets overseas.

On Wednesday, May 11, we announced the release of another new product, Retail ID Mobile. We developed and released Retail ID Mobile in response to our retail customers' requirements for a fraud prevention solution that avoids the costs and the resource expenditures associated with point-of-sale integration. Our customers need a solution that allows store personnel to

move about and address customers in a warmer and friendlier manner versus being separated by a checkout counter. Because Retail ID Mobile can operate autonomously, without the need to integrate with the customers' point-of-sale systems, we expect our sales cycle and the retail vertical will compress and enable us to close business more quickly.

Moving to Law ID. Intellicheck Law ID enhances an officer's situational awareness by minimizing the loss of visual contact with an unknown person during a field contact. With Law ID, the officer simply scans the contact's ID barcode and the ID 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 are visible at a glance. Having authenticated the contact's identity, the officer can act accordingly, which can immediately de-escalate a potentially tense situation. Best of all, when the officer returns to the station, Intellicheck makes reporting faster and more accurate by populating standardized form fields from the data retrieved during the ID authentication and from the mobile devices reporting features, including location, date, time and weather information.

Law ID instantly accesses critical, authoritative data sources; increases officer and citizen's safety; provides the officer with accurate, relevant data at a glance; and supports faster, more accurate reporting. We currently have agreements with a number of law enforcement agencies from coast to coast and we are in the process of connecting to state law enforcement

networks. Once connected to these networks that give us access to a variety of authoritative data sources, we will begin installing Law ID at these agencies.

Selling age restricted products like alcohol and tobacco is a compliance challenge. The risks and costs associated with non-compliance are high and rising. Our Age ID product instantly authenticates identification documents such as driver licenses, so our retailers immediately know if the customer's ID is fake. That reduces risk of non-compliance without slowing down the purchase transaction. Age ID works with mobile devices or integrates with existing point-of-sale solutions.

With the ability to read more than 200 unique barcode formats from all US states, Canadian provinces and many Mexican driver licenses, in addition to other US government forms of identification, Age ID provides the most accurate and up-to-date solution. Age ID also offers regulatory compliant 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.

Our Age ID product is gaining traction with our intended market, as well as some new and previously unforeseen ways. We now see law enforcement officers from state-run alcohol

control bureaus and police department vice squads using Age ID to catch underage drinkers and those who sell to them. This is happening coast to coast in some of our nation's largest cities. We are pleased to support local government initiatives to curb underage drinking and we are excited about the exposure our Law ID product has received, through the age of Age ID, by law enforcement.

Processes: we have modernized our infrastructure and business processes. We implemented a customer relationship management program, new ERP software, and moved our old metal servers to the cloud. This provides economies of scale and provides Management with much needed data and metrics, central in running the business. Our infrastructure update initiative was critical to our objective, increasing revenues, and we have now completed the planned updates.

Intellectual Property: we are currently involved in a number of vigorous intellectual property defense initiatives. These include lawsuits filed with claims based upon patent infringement, as well as numerous actions against firms that were using our Company name, trademarks and other intellectual property without permission. We continue to be vigilant and to protect our Shareholders' investments in the Company's intellectual property. Since our last call, we have filed another new patent and we expect this will lay the foundation for new revenues in the

short-term. We look forward, at the appropriate time, to announcing the positive results of these efforts.

In general, 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 of 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 excited and optimistic about our progress and expect our momentum to increase throughout 2016. Customers need and appreciate our products and services. We believe our decisions to invest in our five key areas were correct and are beginning to generate the returns we expected.

In summary, thank you very much for your attention today. Our outlook is optimistic and we look forward enthusiastically to 2016. I will now turn the call over to the Operator who will take questions.

Operator: Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, if you'd like to ask a question today, please press star, one at this time. If you're on a speakerphone, it may be necessary to pick up your handset before pressing the star keys.

Our first question today is coming from Alex Silverman from AWM Investment Company. Please proceed with your question.

Alex Silverman: Hello, gentlemen. How are you?

William H. Roof, Ph.D: We're fine, Alex. How are you?

Alex Silverman: Well, thank you. Can you—given the margins that you guys generated, were there any one-time benefits in there that helped margins or are those from—are those just regular way margins?

Bill White: Yes, hi Alex, Bill White. Those are just a virtue of a product mix. We had lower equipment sales this quarter and that increased our margin.

Alex Silverman: So, that takes me to my next question which is, can you help us with how much of that \$950,000 of revenue came from SaaS products.

Bill White: SaaS or SaaS products, almost—the vast majority of it, of the revenue came from those products.

Alex Silverman: So, is it fair to say, going forward, that assuming you don't have churn in this base, \$950,000 is, at least a floor, given that these are recurring revenue contracts?

Bill White: Well Alex, we don't provide guidance, but...

Alex Silverman: Is that a fair way of thinking about it, at least?

Bill White: It's a fair way of thinking, Alex, yes.

Alex Silverman: Okay, so there's not—okay. Next question is, is—I apologize, I missed—what were your booked orders in the quarter?

Bill White: About 1.1 million.

Alex Silverman: Okay, and of those, can you help us with how much of that was SaaS?

Bill White: The majority, about 90% of that was SaaS.

Alex Silverman: Oh, great. What was the—just skipping around, what was the accelerated spend on R&D in the quarter?

Bill White: About—the R&D increase over (inaudible) last year was about \$555,000.

Alex Silverman: So, was all of that increase related to trying to generate these two products in a timely fashion, or was some of that general increase in R&D?

William H. Roof, Ph.D: Hi, Alex, \$200,000 of that was an un-funded mandate we had left over from 2014, that we had to go to—into a customer and do work for free for them that was written into a contract. So, the other 350, roughly, was mostly new product development.

Alex Silverman: Got it. Okay, and—okay, that's helpful, and then, in terms of—what is your headcount in terms of sales people at this point?

William H. Roof, Ph.D: I think we ought to talk offline with you on that, Alex.

Alex Silverman: Okay.

William H. Roof, Ph.D: Because it's—we're in the middle of hiring a number of people right now, and I'm not sure they've accepted their offers yet.

Alex Silverman: Fully understood. Then, the Retail ID press release you put out the other day said you're in trials with two department stores. Can you give us a sense of what a trial is? Is it three months? Is it a year? Is it a full roll out or is it just a couple of test stores? How should we think about it?

William H. Roof, Ph.D: These trials are 60 day trials, and then, typically we'll go into a number of stores, we'll do a 60 day trial, and then they'll roll out to the rest of the stores, and that's—given the new products, the rollout is almost immediately. It doesn't take any integration. So that's one of the reasons we accelerated our R&D costs, our spending in Q1.

Operator: Thank you. Our next question is coming from Jim Kennedy from Marathon Capital.

Please proceed with your question.

James G. Kennedy: Hi, guys.

William H. Roof, Ph.D: Hi, Jim. How are you?

James G. Kennedy: Good, good. Bill, I wanted to just follow up on the Retail ID line of questioning that Alex was going down. Could you explain to us a little bit more what that market looks like? I think we understand the Law ID and the Age ID. With Retail ID having announced two, which I guess you described as prominent, department stores, is this a—can you describe how the product is used, say on the sales floor? Is it a product that would be applicable to any retail environment, regardless of size, so that someone with, say, four or five hundred, maybe a thousand stores nationwide might use it in every store? Can you talk a little bit more about the market and how it's being used?

William H. Roof, Ph.D: Sure, Jim, and I think we've got Bob Williamsen on the line. Bob, do you want to address that?

Robert N. Williamsen: Bill, sorry, it was on mute. Yes, happy to address that. Hi, Jim.

James G. Kennedy: Hi, Bob.

Robert N. Williamsen: Very good to speak with you. Excellent question, so, in terms of the Retail ID market, how it's used, let's start there first. Many of our retail customers, including the department stores previously mentioned are dealing with fraud issues, so people coming in and fraudulently applying for credit, either in-store or for credit cards themselves. The other type of fraud that we see in the stores is, they'll come in and fraudulently try and do an account look-up, and say, "Gee, I have an account but I left my information at home", and they'll provide false credentials.

The other form of fraud that we see is what is called non-receipted returns, where the customer literally walks into the store, goes to the customer service desk and says "Hey, I've got all this merchandise to return but I don't happen to have any receipts", and then they try and return that product because, they perhaps, have shoplifted that from another location. So, those are, kind of, the three areas that we hear about from our retail partners. So the use case for them starts there.

The other significant use case for them is then, accelerating customers into their private label credit cards and their loyalty programs. So, when we look at a department store, their primary

objective is, let's deal with the fraud related issues, and there's been some, even with the EMV standards that have been implemented, there's some increasing pressure—increasing fraud numbers that we're hearing about. So, these retailers have been highly motivated to move forward rapidly with Retail ID to get this fraud issue under control. But, the secondary benefits are, it's a better customer experience and they can more quickly on-board customers into their credit card and loyalty programs. So, that's kind of how it's used. Does that make sense Jim?

James G. Kennedy: It does. It does, and is there some magic to a department store versus, say, going into a mall where you've got 40, 60, 80 different outlets there?

Robert N. Williamsen: Yes, so that's to the second part of your question, in terms of, like, store mix and that sort of thing. What we see there is, it's really a function of what's taking place in those stores. So, we try and segment it in buckets. You've got big department stores where they're applying for credit and you might have very significant spend and those fraud issues can be rather large. You also have a host of other retailers that have very large footprints. These are thousands of locations and they're still putting in the loyalty programs. They're still putting them into credit cards, but the spend might be different. It might be on a smaller order of scale, but the volume and the numbers are quite large. So, we have retail customers—sorry, go ahead?

James G. Kennedy: Yes, so, in other words, it's really—the target market is any retailer that might be engaged in that type of activity.

Robert N. Williamsen: Potentially, that's exactly right, so we look at it, and again, we segment it. So, if I'm a retailer and—you've got the big box, big department store retailers, very important segment. Then you've got the other retailers with large footprints that are doing significant volumes but they're trying to get more people signed up in their loyalty programs, expedite the on-boarding of that process, and again, they're applying for credit, and some of those locations might have thousands of retail stores.

Then, when you look at the mall, to your question earlier about inside the malls, you've got all the typical mall retailers, right? So, like a J. Crew, for example, a clothing retailer, they're one of our customers through one of our channel partners, and so every J. Crew right now is using our solution in their stores, and it's driven through channel partners. So, when we look at the retail space, we've bucket-ized it and we're going after those retailers, in some of those instances, directly, certainly the big retailers, big box retailers and other big brands, and then parallel to that, Jim, we're also working with other financial partners who are in the space, who have either credit card relationships or other financial services relationships and they're literally, in some cases, taking us right to the client, and in some cases it's a tool that they buy from us and then they implement.

So, we have a couple of different strategies to get to the marketplace, but the retail space is very large. Retail ID Mobile that Bill referred to, this new release that we had earlier in the week is an important next step because it greatly accelerates our ability to go live. So, a retailer who is interested could literally come to us and say, we'd like to implement. We could literally have them live the next month, in a matter of weeks. If they're using mobile devices anywhere in the store, and we're seeing more and more retailers do this, we can literally be pushing our solution, our apps, onto those mobile devices and they're live immediately and getting those fraud reduction benefits instantly. So, we think that's very important.

So, we're seeing a lot of traction, a lot of interest in all those segments that I just mentioned and with our retail, and, excuse me, our financial partners who are in the same channel.

James G. Kennedy: Now, can I read into your earlier comment that an actual credit card issuer or a bank could also be very interested in what you're doing, if not partnering?

Robert N. Williamsen: Correct. That is correct.

James G. Kennedy: Okay. Okay. Hi, Bob, as long as I have you on the line, to switch over, back to Age ID for a second, is the strategy here—I know we've talked a little bit about North

Carolina in the past—is the strategy here to tackle the ABC states first, because they're the low-hanging fruit, and if so, what is the strategy and where are we in tackling them?

Robert N. Williamsen: So, it's a parallel path, but clearly there's a total of 17 control states that we are targeting. North Carolina, we've already talked about it, and we're expanding there. We're also, actually, in Idaho, and been in use there for a period of time now, but our team is running a parallel path. The liquor controlled states, and it's not just the states themselves, but the law enforcement boards—agencies that work for those liquor control boards, who are then responsible to enforce the laws. So, we're running, kind of, a parallel path with Age ID to create exposure in those states.

Then, the other avenue that we're tackling is what's called on-premise. So, the liquor controlled states, that's off-premise retail sales, so, you come into a liquor store, you want to buy a product, they need to verify your age, you buy, you head off-premise. The on-premise retailers are the big restaurants, the big brands that are filling alcohol right inside their locations, and we're starting to get very significant interest in that segment as well, and so we think that's the—so that—the liquor controlled states and the on-premise retailers for alcohol, we think are the next best avenues for us with Age ID.

James G. Kennedy: Does that on-premise include somebody like a grocery store that would sell beer and wine, or is that considered off-premise?

Robert N. Williamsen: Well, that would be off-premise.

James G. Kennedy: Okay, and are they also a target market?

Robert N. Williamsen: Correct.

James G. Kennedy: Okay. Okay. Thanks, Bob. Hi, Bill, a quick question for you. I know you don't want to talk about the number of sales people, but can you talk about the sales force strategy composition-wise going forward? Is it going to be vertical or are you hiring generalists? What are you thinking there?

William H. Roof, Ph.D: We are hiring both. So, for example, we want our sales people who are in our commercial markets to be able to sell any of our commercial products, but for our Law ID product, that requires a subject matter expert, and so we've got some people we're looking at right now who have deep backgrounds in law enforcement and in technology. The same thing goes for our Defense ID—not a commercial product. We're talking to military—got to be able to speak the language and also know the technology and understand force protection and

counter-terrorism and threat assessment and all that type of thing. So, for our non-commercial products, we're going to have subject matter experts. They'll focus on those areas, and for our commercial products, we'll spread those across everyone. Everyone will be able to sell our commercial products.

James G. Kennedy: Got you. Okay. Congratulations on the progress. Thank you.

William H. Roof, Ph.D: Okay. Thanks, Jim.

Operator: Thank you. Our next question today is coming from (phon) Anthony Markazi, a Private Investor. Please proceed with your question.

Anthony Markazi: Hi. Good afternoon, guys. First of all, I want to thank you for having a lot of your directors on the call. I think it's unusual, but I think it's great that the directors get an opportunity to, not just listen to you, but to listen to questions from investors, so, I want to thank you for doing that.

A question for you, you earlier mentioned that you were spending some money on, I thought you said on some patents, but then you also followed that up by saying it would lead to near-term revenue opportunities. Could you expand on that, if you can?

William H. Roof, Ph.D: Yes, and this is very complex and I can't get into it too deeply, but it's tied in with the proposal we submitted to the defense contractor, one of the largest in the world, and part of this process was being able to license IT to them and that came into some—getting our IP straightened out as it went to that particular technology. So, we expect something to happen relatively soon with this company, and because we were able to jump on getting that patent and that IP straightened out in Q1, that's going to be very helpful to us.

Anthony Markazi: Okay, great, and I appreciate that. Second and final question, I'm sort of new to the investment. I own stock and continue to buy stock. Question for you is, as you look out a year from now or two years from now, where do you see, potentially, your largest markets in revenue -wise?

William H. Roof, Ph.D: Sure. We think we're going to actually have a very nice revenue mix across our markets, so, eventually, retail is going to be very, very large, and law enforcement is going to be very, very large. It's—and because we have licensing agreements in place and this is a software-as-a-service model, it's a growing annuity, and as we bring more customers onboard, we continue to grow that annuity.

It's—all these markets are substantial that we're going after and we dropped some products and we dropped some business areas in the Company last year because the markets weren't there and we wanted to focus our energy on large markets. So, retail, law enforcement, defense is still a large market for us and we're doing some really interesting things there. So, it's really hard to say right now, but they're all large.

Anthony Markazi: Okay, and just one follow up question to that, who are your current competitors in each of these—the markets that you just mentioned where you think you'll be strong over the next year or two? What's the current competition look like in each of these markets?

William H. Roof, Ph.D: Much of the competition in these markets are people who are using our technology without our permission, without licensing from us and this has been a problem for years for this Company, and if you've been following our press releases about patent infringement lawsuits, and so forth, we're trying to take care of that and fix that and return that money to Shareholders right now. We run into our own technology all over the place. We'll see bids and they're using our patents, violating our patents.

So, there are a few newer technologies out there where we've—we're playing a chess match right now where we're jumping ahead and we've got some new technologies that we're

blending into our current mix, but mostly what we're running into is our own stuff out there, and it's something that we've been working very hard to fix.

Anthony Markazi: Right, okay. I guess—I think I read that your only exposure, in terms of legal costs, are on one litigation. Is that correct, and the balance you're doing on a contingency basis?

William H. Roof, Ph.D: That's correct.

Anthony Markazi: Okay, and this quarter, how much of that—how much are your expenses related to that particular litigation where it's on your dime?

William H. Roof, Ph.D: About—roughly \$200,000.

Anthony Markazi: Okay, and do you anticipate that—how much longer do you anticipate that number to—is it something that you can repeat over the next several quarters?

William H. Roof, Ph.D: No, that was a one-time hit. Our legal fees are way, way down now. So, Q1 was an anomaly in both R&D expenses and in legal expenses, and things are back to normal now. It was important to get this initial infringement case into the courts and get some rulings

from Judges on the validity of our patents, and so forth, and we have that now, and most of our claims have been upheld, so we're moving forward with the other cases and that was part of our strategy.

Anthony Markazi: Yes, I guess the only negative is, and I've followed this with other companies, unfortunately it seems as though most settlements that take place, take place at the courtroom steps, so I see very few instances where people settle way in advance of an actual court date. Unfortunately, you have attorneys whose vested interest is to keep this going, especially if you're suing larger entities, so, hopefully you'll get some satisfaction earlier rather than later, but I suspect that in most cases, you're going to be at the courtroom steps before you see any real satisfaction.

William H. Roof, Ph.D: That's pretty true, Anthony, but we've got some great attorneys. We're suing—the test case was—is a very small company and the larger companies are on contingent fee basis, so those attorneys are anxious to get those cases over with. They're not—they don't want to spend their own money. So, we think the strategy was correct and it appears to be working.

Anthony Markazi: Right. All right, congratulations. Look, for what it's worth, the stock today is just, in my opinion, incredibly cheap and you've got, today, a \$16 million market cap, less your

cash. Given the markets you're looking at, I think the markets—I think all you need is a little bit of sustained profitability and I think the markets will re-value the Company significantly higher than where it stands today. So, that's just my opinion.

William H. Roof, Ph.D: Well, thank you, Anthony. We believe the same thing and we're working very, very hard to make that happen. So, we appreciate your asking a question today.

Operator: Thank you. We have reached the end of our question-and-answer session. I'd like to turn the floor back over to Management for any further or closing comments.

William H. Roof, Ph.D: Thank you once again for joining us today for the Q1 2016 earnings call. We look forward to our next quarter and please keep an eye on our press releases; we believe that we're going to have some interesting information to report to you very soon. Thank you very much.

Operator: Thank you. That does conclude today's teleconference. You may disconnect your line at this time and have a wonderful day. We thank you for your participation today.