

Intellicheck
Q1 2022 Earnings Call
June 13, 2022

Presenters

Gar Jackson, IR
Bryan Lewis, CEO and Director
Jeff Ishmael, CFO

Q&A Participants

Michael Grondahl - Northland Capital Markets
Scott Buck - H.C. Wainwright & Co.
Rudy Kessinger - DA Davidson
Aaron - Craig-Hallum Capital Group
Roger Liddell - Clear Harbor Asset

Operator

Greetings. Welcome to the Q1 2022 earnings call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*" "0" on your telephone keypad. Please note this conference is being recorded. I will now turn the conference over to your host, Gar Jackson of IR. You may begin.

Gar Jackson

Thank you, operator. Good afternoon and thank you for joining us today for the Intellicheck first quarter 2022 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 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, June 13, 2022. Management will use the financial term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further definition, reconciliation, and context for the use of this term.

We will begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer, and then Jeff Ishmael, Intellicheck's new CFO, who will discuss the Q1 2022 financial results. Following their prepared remarks we will take questions from our analysts and institutional investors. Today's call will be limited to one hour, and I will now turn the call over to Bryan.

Bryan Lewis

Thank you, Gar. I am very pleased to begin the call today by welcoming Jeff Ishmael as our new Chief Financial Officer. Jeff is a very operationally focused CFO with extensive SaaS experience and was the founding CFO at Cylance, whereas employee number seven, he had an instrumental role in the company's success. Cylance was later sold to Blackberry for \$1.4 billion. This is followed by his role as the first CFO of Obsidian Security, another SaaS-based startup that was founded by key members of the Cylance team. In addition to Jeff's extensive SaaS-focused financial experience, he also brings extensive operational expertise, having overseen significant organizational functions, including business operations, business intelligence, legal, and HR. I am very excited to have him on the team.

Before getting into our first-quarter results, I'm going to take a few minutes to give some additional color to our recent restatements that led to the delay in reporting our Q1 results. During the first quarter of 2021, Intellicheck employees did a cashless exercise of incentive stock options. Due to an isolated administrative oversight resulting in part from the change in payroll providers, the company inadvertently did not remit payments to taxing authorities related to the shares surrendered for tax purposes.

This inadvertent administrative oversight was only recently discovered and resulted in an understatement of liability for surrendered shares and an overstatement of equity on the company's balance sheets. The oversight is being recorded as a \$1.244 million liability on the balance sheet as liabilities for shares surrendered on the March 31, 2022, and December 31, 2021, balance sheets. The company intends to rectify the liabilities in 2022.

In conjunction with the issue above, the company determined that certain participants associated options awards no longer qualify as equity rewards but rather as a liability resulting in an additional liability of \$141,000 for the three months ended March 31, 2022, versus the prior-year period. This change in classification to liability resulted in an adjustment to the first quarter of 2021 equity compensation expense, increasing it by \$3.56 million.

As a result of the first quarter 2021 restatement, SG&A expenses related to equity compensation decreased for the three months ended March 31, 2022, by \$3.95 million compared to the same period of 2021. To ensure that this type of narrow isolated incident does not happen in the future, the company has engaged a nationally recognized fintech company specializing in managing employee stock option plans to coordinate the management of transactions by employees with respect to exercises of their stock options.

In addition, as a further safeguard, future cashless exercise of stock options will be settled by the sale of the surrendered shares and will be administered by our third-party provider. The company will not be involved in cashless exercise transactions or the remittance of the tax proceeds and tax authorities on behalf of employees going forward. As a reminder, these restatement amounts were predominantly non-cash, had no impact on revenues or EBITDA and again, we have put safeguards in place and have engaged third-party specialists to administer and advise on the equity compensation plans.

Turning now to our quarterly results, I will share the highlights with you, and then Jeff will go into further financial detail later in the call. Total revenue for the quarter was \$3.395 million, with SaaS revenue at \$3.35 million. SaaS revenue was up 21% over Q1 2021 and down 10% from Q4 2021. I will remind everyone that generally, for our retailers who are using our products either directly or through a sponsoring the bank, 33% of transaction volumes occur in Q4, and 21% of volume occurs in Q1, so the seasonality dip is expected. Gross profit margins remain healthy at 90.7%.

As we look at what happened during the quarter, I believe that the results show that number one, clients continue to find new uses for our products. Number two, we continue to expand in our core markets, and number three, we are continuing to find new markets that need our services.

Looking at our financial services clients, we are seeing strong progress with financial services company number three. We are nearing the completion of the rollout to their bank branches. From current volumes, we anticipate that the branches should generate over 1 million transactions per year.

Financial services company number four has completed the rollout of the bank mobile platform where the bank employees come to you in the lobby and process all of your banking needs using a tablet. You may remember that last year this client purchased a bucket of transactions that they expected to meet their needs over a one-year period. Instead, they used up their bucket of transactions in nine months, and transaction volumes with this client continue to increase. They have raised the minimum purchase for the second year of their contract by 16% with no discount for increased volume.

Financial services company number seven has extended the use of our services to Canada for both document validation and facial recognition. Financial services company number eight has

signed on to validate passports starting at the end of June. This is an important milestone as financial services company number eight becomes our second major client to commit to using our technology solution for international documents.

Turning to new opportunities, the security audit at the top three banks we spoke about on the last call continues, and as I said, it seems the larger the bank, the longer the process. I have no doubt we will pass the audit as they are pretty much the same across all large banks; it's just a process they have to go through. The good news is that while it is happening, the bank is continuing to work with us to identify additional areas in which our services could be used.

On the retail client front, I am pleased to report another important development. Our off-price retailer that started out using Intellicheck for parsing to pre-populate applications at their 3000 locations and that we just renewed for a three-year deal has completed the rollout of an additional use case at their locations. In addition to credit applications, they have now begun using us for no-receipt returns. They expect that this will double their previous volume, and early indications show that to be the case. You may recall I shared with you in the last earnings call that we moved this client from a per-location pricing model to a per-transaction model with an 87% price increase in year two and a 33% price increase in year three.

Looking at new wins, we signed a prestigious new client and have moved them into production. This is a PE-owned global media and tech giant. This company has incorporated our API into their call center software to stop account takeover for the email services they provide. Think how much information a person could gain if they have access to your email. They can get banking information, credit card information, and, just as importantly, password resets. They can literally take over your life. Now if someone at this client calls to reset a password, they will be asked to authenticate themselves using Intellicheck software. A text is sent to their phone, and we validate the license. Even though this client went live just recently, we are already in discussions with them about other divisions that could potentially use us in North America with a further potential to expand internationally.

In addition to this, we have successfully completed a response to the New Hampshire unemployment security RFP. We have been notified of the contract award and are currently finalizing the contract. While not a large state when it comes to unemployment claims, I believe that given the issues many states are having with their current provider, this could become an important entrée to that market.

I am very pleased to announce that we have also signed agreements with two banks to begin pilots. The first is a bank holding company headquartered in the South with almost 2800 branches. This bank plans to start with digital new account openings and will then add the bank branches. This pilot is expected to start in Q3.

The second pilot also involves a bank holding company and is also located in the South with over 1,400 branches. This bank is going to do it in the opposite order. They will start in the bank branches and then move to digital account openings. This pilot is also expected to start in Q3.

On the platform front, we continue to migrate our clients onto our new identity platform. This is giving us additional upsell opportunities like international documents. It is important to note that it is also allowing us to speed up the on-boarding of clients. All of the clients that have moved over to the form or are new to Intellicheck have said that the APIs are very simple to work with, and on average, the implementations have been 50% faster than in the past.

In response to those who have asked about the traffic coming from retailers, I can say it is very healthy and growing. To give you an accurate portrayal, I looked at transaction volumes from our top 10 retailers by volume for Q1 2022 versus Q1 2021. Please note that they only looked at fully laminated retailers so as not to skew the data with a rollout or a new use case. Based on those numbers, overall transaction volumes are up 6%. When new use cases are added to the transaction volume, use case goes up significantly. For example, I looked at the first four months of 2022 versus 2021 for the off-price retailer I spoke about who added no-receipt returns since they completed rollout at the end of April. Their volumes went up 36% and are growing.

A lot of people still think we are primarily tied to brick-and-mortar retail but let me remind you that is not the case. We have had significant growth coming from digital expansion and new markets that we are beginning to capitalize on. Again, I compared Q1 2022 to Q1 2021. Digital transactions were up 13%. Bank transactions were up 31%. Automotive dealer transactions were up 104%.

So before I turn the call over to Jeff, there are some statistics that I think are noteworthy given their impact on selling. As we review them, I am confident you will see their value in quantifying the need for our products. The Javelin research report published in 2018 put identity fraud losses at \$16.8 billion. The report published in 2022 put the number at \$52 billion. That is an increase of 200% in four years and the number of people impacted rose 150%.

In the last year alone versus the previous year, account losses in key areas like checking and savings accounts increased 73% to \$7.8 billion. Account takeover losses soared 90% to over \$11 billion. New account fraud rose \$6.7 billion, and the amount that hit the consumer rose 672%, with an average of \$1551 lost per victim. This level of fraud is not sustainable. What is frustrating is knowing that these incidents of theft could have been stopped by Intellicheck in less than 20 milliseconds. What I find promising is that I believe that the new clients we are signing, the pilots they are starting, and the number of leads that are coming to us indicate that key markets are beginning to take notice.

In closing, we have added new leadership to the finance team with a fast, experienced CFO who knows how to drive growth, analyze data, and has extensive operational and systems expertise.

Jeff is going to be an invaluable addition to the team to help me drive the business and introduce more rigor to our financial operations. At the same time, we are continuing to seek sales associates that have related industry experience and relevant relationships. During the quarter, we added two new members to the sales team with relevant experience, and they have hit the ground running.

I remain enthusiastic about the future for Intellicheck as we continue to expand our presence in multiple markets like automotive, banking, global email providers, and age-restricted product delivery services while we advance as a global, fully automated identity verification and fraud prevention company with what I believe are significant opportunities ahead of us. I will now turn it over to Jeff.

Jeff Ishmael

Thank you, Bryan. I am excited to join the Intellicheck team. I believe this organization has substantial opportunity in the identity space.

Turning now to our first-quarter results, revenue for the first quarter of 2022 grew \$532,000 or 19% to \$3,395,000 compared to \$2,863,000 in the same period of 2021. Our SaaS revenue for the first quarter of 2022 grew \$577,000 or 21% to \$3,353,000 from \$2,776,000 for the same period of 2021. Gross profit as a percentage of revenues was 90.7% for the first quarter of 2022 compared to 92.3% for the same period of 2021. The decrease in gross profit percentage was primarily driven by higher cloud services, costs, and other web-based support.

Operating expenses which consist of selling, general and administrative, marketing, and research and development expenses, were \$4,547,000 for the first quarter of 2022 compared to \$7,281,000 as restated for the same period of 2021 due to the reclassification of the options as discussed. Included within operating expenses for the first quarter of 2022 (inaudible) 2021 were \$592,000 and \$4,545,000 respectively of non-cash equity compensation expense also due to the reclassification.

On a non-GAAP basis, excluding the impact of non-cash compensation expense in both periods operating expenses increased \$1,219,000 or 45%. This increase was driven by higher professional services and marketing expenses. The company reported a net loss of \$1,468,000 for the first quarter of 2022 compared to the restated net loss of \$4,624,000 for the same period 2021.

The net loss per diluted share for the first quarter of 2022 was \$0.08 compared to the restated net loss per diluted share of \$0.25 for the same period of 2021. The weighted average diluted common shares were 18.7 million for the first quarter of 2022 compared to 18.5 million for the same period of 2021. Adjusted EBITDA for the first quarter of 2022 was a loss of \$806,000 compared to a loss of \$51,000 for the same period of 2021.

Turning to the company's liquidity and capital resources, as of March 31, 2022, the company had cash of \$11.1 million, work getting capital defined as current assets minus current liabilities of \$9.7 million, total assets of \$23.5 million, and stockholders' equity of \$18.9 million. The company has a \$2 million revolving credit facility with Citibank that is secured by collateral accounts, and there are no amounts outstanding under this facility. As of March 31, 2022, we had net operating loss carry forwards of approximately \$18 million.

I will now turn the call over to the operator to take your questions.

Operator

At this time, we will be conducting a question and answer session. If you would like to ask a question, please press "*" "1" on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press "*" "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the "*" keys. One moment please, while we poll for questions.

And our first question comes from the line of Mike Grondahl with Northland Securities. Please proceed with your question.

Mike Grondahl

Hey, guys, and good afternoon. Hey, Bryan, could you restate some of the highlights about I think it was the off-price retailer, just some of the progress they have made and kind of some of the numbers you said about that customer?

Operator

Bryan, is your phone on mute?

Bryan Lewis

Yes, my phone was on mute; sorry, Mike. Yeah, they had been using us just for credit applications, and they were getting hit with a lot of fraud on the no-receipt return, which is where the retailer always eats all of the fraud loss, so they moved us, and they are now using us for that use case. They said that would probably double the transaction volume, and as I said on the call, it appears that is the case.

We renewed them in Q1 for a new three-year deal. We kept them flat in the first year of it because we have been working on getting this new use case. Next year the fees go up 87% and in the third year they go up 33%.

Mike Grondahl

Got it. Those are some big numbers. And the no-receipt returns, how would you say that offering is penetrated? Within your retailers, are you at like one in eight you have that up and running, one in 10? Just sort of roughly.

Bryan Lewis

I would say very, very few, so certainly it is one of the areas that we are going after with any one of the clients that we are already in, particularly the clients that we are already in because we don't have to do any work like we are already integrated into their point of sales system they just need to make it work for a new use case. So Bruce(sp) has any one of the salespeople that covers a bank that has retailers we are going directly to the retailers to see what their interest is in this use case.

Mike Grondahl

Got it. And then secondly, financial services client number eight, I didn't completely catch what you are going to be doing incrementally for them. Could you just highlight that again?

Bryan Lewis

Yes, they have got an interest in passports and potentially other international documents besides passports, so they are looking for us to authenticate things in addition to drivers' licenses and state IDs. They want to be able to use international documents as well.

Mike Grondahl

Got it.

Bryan Lewis

one of the things that we brought out with the identity platform was the ability to do international, something that we couldn't do before, so this is all new use cases and opportunities that we are beginning to see because of the identity platform.

Mike Grondahl

Got it. Lastly, how many integrations have you done sort of year to date, and what does the pipeline look like?

Bryan Lewis

I should have looked at the count for what we have done year to date. I say I am breaking out integrations to be sort of the difference between what I would call more provisioning where we are setting people up with our web tool and then direct integrations to somebody who is using what we call ID indirect. So before we used to conflate those two things, really I think it is a better thing to look at what is direct because that tends to be more high-volume versus what is a provisioning which can be high-volume but generally sort of small, medium volume, and we've got about ten different IDN direct implementations in various stages either active development or planning which is kind of consistent with where we used to be in the past. But when we conflated the numbers it sounded like a bigger thing thought it was better to give people an idea of what is probably more revenue driver than a provisioning.

Mike Grondahl

Got it, okay. Thank you.

Bryan Lewis

Thanks, Mike.

Operator

Our next question comes from the line of Scott Buck with HC Wainwright. Please proceed with your question.

Scott Buck

Hi, good afternoon, guys, and welcome, Jeff. Bryan, you gave us some good same-store sales, you know, year-over-year color up 6%. Can you tell us is that above pre-COVID levels, or do we still have a little ways to go in terms of traffic to go back two years, I guess?

Bryan Lewis

Brian, I would say it is still slightly below, not by much, though. We are getting there.

Scott Buck

Okay, that is helpful. And then more of a, you know, bigger picture strategic question, given the current market conditions, how are you going back and forth between reinvesting in growth in the business versus trying to drive some positive EBITDA here in the near term?

Bryan Lewis

Well, what I would say is we did a lot of investment last year, something which the cost will be going away. Like for example, to bring out the new identity platform, we needed to jumpstart some of our development team, but I looked at that as a project. It has a beginning, middle, and end, and then we don't need the people anymore, and so to me, that's you hire outside consultant developers to do that because when it is done, you just turn off their contract which is what we did in that case, and all those developers fall off of the cost side of the equation this month.

So what we are looking at right now is I think we right-sized the group last year. We had some areas, and IT where kind of some critical roles that I felt that we were single-threaded. So we added people to that. The other thing that we have done that was new expense for us, we never had a marketing team before, and we built that out, and we are spending money on marketing, and that is certainly paying off. We are seeing fantastic leads coming in across this spectrum of different things that we do.

You know, I will say that that media giant that we talked about came in as an inbound lead because the marketing worked so well. So we are not looking to really increase any expenses at all other than salespeople because I am always interested in salespeople, so really the goal now is I think we right-sized, we don't need to be spending a lot more money on people other than sales. So that is kind of how I am running the company. If we find the right salesperson, we are going to make them an offer. We don't need to add staff really in any other area.

Scott Buck

Okay, I think that is some really helpful color. And then, in terms of capital allocation, how are you thinking about potential M&A, or with the stock down at these levels, does it make sense to try to buy a little back?

Bryan Lewis

Okay, I will say this. People are always bringing things for us to look at; that is just the nature of the beast. We are always looking for partnerships that make sense. I think, for the most part, that is probably the best word to use. Partnership maybe work together if it is something that is symbiotic, and see if it really does make sense before you jump in.

I would say some people have asked about doing a stock buyback or those types of things, and I don't know; it seems a lot of times I don't see it really adding a ton of value. It doesn't really change the share price all that much, so at this point in time, I think I would rather keep the cash on the books for if I see things that could--to spend maybe on salespeople or other things like that but right now I think we have got a ton that we can be doing just to grow and sell and I am kind of focusing on that.

Scott Buck

Scott sounds good. I appreciate the time this afternoon, guys. Thanks a lot.

Bryan Lewis

Thank you.

Operator

Our next question comes from the line of Rudy Kessinger with DA Davidson. Please proceed with your question.

Rudy Kessinger

Thanks, guys, for taking my questions. Jeff, welcome, and I am curious, you know, just a couple of weeks left in the quarter. Is any kind of guidance or color you can give us for Q2? And then, just on a go-forward basis, Jeff, do you think we can get to a point where we can get quarterly guidance?

Jeff Ishmael

That is more of a board-level decision, but I would say historically and currently, the board's opinion is not to give guidance.

Rudy Kessinger

Okay, fair enough. If you could on the two new bank pilots and I guess maybe throw in the top three U.S. credit card issuer that is in the security audit too, can any way you can size up the potential either transaction volumes or revenues? I mean, is each one of those opportunities--I know the top three bank is a multi-seven-figure opportunity, but maybe those two new banks that are in pilot, I mean, are those mid-six-figure opportunities, or can those be seven-figure opportunities as well?

Bryan Lewis

I think it depends a lot. We will know more as we get into proof of concept because a lot of it depends on how often the bank wants to do an authentication because some of the banks say well, I am only going to do it if it is a transaction \$2500 or greater, some are thinking no, I need to start at \$500, so I would say at this point in time I think that they are very good opportunities but I couldn't give you an accurate number that I would want to hang my hat on today.

I would say that probably as we get closer to launch of the proof of concept, we would have better insight into that because knowing exactly what their decision tree on risk is, I can compare it to some other banks of the same size and then come up with an estimate.

Rudy Kessinger

Okay, that is fair enough. On pricing increases last quarter, you said you had 1100-store department chain that had a 33% price increase that was supposed to go through this quarter. I'm just curious if that has gone through yet—

Bryan Lewis

--Yes.

Rudy Kessinger

Okay, good. And then secondly, you had said fin serve two and three would be renewing at some point this year. Is there anything further you can share just on timing of when those will renew and the expected price increase you think you will get on those?

Bryan Lewis

Yes, that is going to be next quarter, and you know, I would say that I'm very happy with so far the price increases that we have agreed to because they are a combination of price increases and volume guarantee, but I am going to knock wood now and say I don't want to jinx it all yet, but we are in the final stages of--we are in the stages of finalizing all of that now.

Rudy Kessinger

Okay. And then, just lastly, the transition to the new pricing model where people are paying up front. I know you started that last year and most new customers are coming in that, those fin serve two and three, are they going to renew, or when they do renew, are they going to switch to that new pricing model as well?

Bryan Lewis

there again, they are going to switch to not necessarily paying upfront because they have a lot of seasonality and variability in their revenue streams because it is very tied to retail, so and then they apportion certain costs for their accounting they are going to want to do it pretty much pay as they go so similar to where they were, and I am kind of indifferent to it because once a retailer is on board, April is April, May is May, June is June, the volumes are very, very consistent and predictable. So we have a very good idea of the revenue that would be coming

in and as I said too there is going to be guarantees to the number of transactions that they are going to do.

Rudy Kessinger

And then on the sales side, you said you added two this quarter. I think last quarter you said you added two as well just where do we stand what is the total sales rep headcount? And I know you have had some challenges, some turnover in the sales org, have you seen any improvement in the recent hires working out better than the hires over the last year, year and a half?

Bryan Lewis

Brian, yes, we are about eight or nine salespeople; nowhere near where I want to be. I think focusing on hiring people from the industry who understand it is definitely paying off with the two guys that we hired already the meetings that they brought me to, I am very pleased with, and they are seasoned, they know how to work the phones, they know how to work relationships, so I am much happier with the latest hires than I were with the previous.

Rudy Kessinger

Okay. I will jump back in the queue. Thanks, guys.

Operator

our next question comes from the line of Jeff Van Rhee with Craig-Hallum Capital Group. Please proceed with your question.

Aaron

Hey, guys. Aaron on for Jeff. Appreciate you taking our questions. So first question to follow up on that question about sales, so any target that you are looking for as far as total sales headcount over the next quarter, two quarters, end of the year?

Bryan Lewis

Look, I think that as we begin to focus more on our vertical alignment of salespeople so that they are speaking the same language as the client, one thing that I would say is when we were smaller, they had to sell to everybody, but when we start to get bigger, and we know that we can focus on areas what we are doing is looking to hire people who are experts in that area, and once we size up the opportunity by vertical, then we are going to get a really good idea of where we want to hire people. Because the way that I look at it if you are not speaking the language you don't have any credibility and you guys get it from the buying world people talk duration and equity world they talk volatility, and nobody from the different worlds knows what that means.

I want to make sure that somebody is going in and talking to an auto dealership they know the language, they are talking to financial services, they know the language. So I would say that my goal would be to get to 15 good people because we know that we have that much opportunity out there, but I want to do it logically, and I want to make sure that we are hiring good people. I

don't want just a butt in the seat. I want somebody who knows the market that they are going after, has a track record of proving that they can succeed in it, and understand the awesome opportunities that they have coming to Intellicheck as a salesperson.

Aaron

Awesome, that is helpful. And then you know lots of good color on wins. Curious if you can put any bounds around bookings in the quarter and how is it compared to expectations maybe to past performance, anything you can provide there?

Bryan Lewis

Q1?

Aaron

Yes.

Bryan Lewis

I am always looking for more than we are providing, but I would say that given it's a new sales team, or it was, and they were building pipeline and things I think it was within where we wanted to be, I am always pushing everybody to do more than they are and certainly the salespeople that we have who are successful always want to do more as well so they understand when I say we need to do more and you can do more, and they get it.

So I would say that is kind of within bounds. I would rather we were more the higher end of the bound. We also know that some of this was we had one of our larger clients go into a freeze, so that impacts things, but looking forward to coming out of that freeze and what we know that is going to bring for us so within bounds given that number two going into a code(sp) freeze.

Aaron

Perfect. And then last question just related. I was actually about to follow up on that code freeze. Anything change there? I think previously, you said Q3 that that would be completed. Anything change there on the timeline?

Bryan Lewis

Not so far. Timeline looks like it is holding. It is just a matter of when in Q3 because that will depend for when all of the retailers go into a code freeze where in Q4 they go into it, will have an impact on implementations this year.

Aaron

Got you. That is helpful. That is it for me.

Bryan Lewis

Great, thank you.

Operator

And our next question comes from the line of Roger Liddell with Clear Harbor Asset. Please proceed with your question.

Roger Liddell

Yes. Good afternoon, Bryan and Jeff. The couple of things I wanted to follow up on the comments about the pre-purchasing the buckets and separately the guarantees how do those call them changed marketing approaches affect the quarterly pattern that you have guided us to in the past, the 21% Q1 and 33% Q4 and so forth?

Bryan Lewis

So the one thing I will say the guarantee is the only thing in Jeff correct my accounting because you know how much I hate accounting. Those guys are basically billed in arrears, and if they missed a guarantee, that will be trued off at the end of the year and then, for the prepayments, Jeff explained I know how we are working that the prepayment model, I think we are booking that straight line, right?

Jeff Ishmael

That is correct.

Bryan Lewis

So that will take some of the seasonality out, but for the most part, they've very large retailers. Roger, the large retailers, given the nature of how they do their expensing they are staying on a model where we are going to bill them in arrears. The bank that has prepaid, we have a lot of retailers who pay us direct, and then they reimburse the retailers so they can make the difference. A lot of the other clients in the other markets that we have they are the ones who are pre-paying a bucket.

Roger Liddell

Okay. Well, I think it would help if you were more forthcoming. I mean sharing more with us in terms of the adjustments to the revenue models that we are carrying in our heads. For instance, if a shortfall if an arrearage is trued up in the Q4, maybe there's a thesis that Q4 is going to plea notably higher percentage of annual than the 33. So as things play out, hold our hands in terms of how to think about it.

Bryan Lewis

Yeah, and then Roger, if you remember, and we will give color on that, but it's not calendar year because it is when the contract is signed, so it could end up that we are doing the true-up in Q1 or Q2, it all depends on when the renewal date or renewal of the MSA is so it's not necessarily that would come in Q4. But I see what you are saying, and we will try and help everybody with those models because I understand. I don't want to come out with a crazy surprise because then it just screws up quarters going forward so I take that and I understand it.

Roger Liddell

Okay. I was struck by the Javelin data; at least, I think they are from Javelin. You gave the 2018 Javelin figure. Astonishing numbers, which puts up in bright lights to me one of the mysteries of your penetration or lack of penetration among the existing financial services companies where these credit card issuers they've got some retailers out there who are on board and presumably happy to be sheltered from these fraud patterns but why isn't the door--your doorway having other retailers and relevant customers of the FIS, I'm sorry financial services company, why isn't the marketing, why aren't people just being driven to your front door by the Javelin numbers and the forecast of it certainly not going down?

Bryan Lewis

I would say that we are beginning to see that. All marketing takes a while to get an affect. There is studies about we have to touch somebody 16 times through their marketing campaign before they even notice it, those types of things which is why the spend on marketing was important to me, and I would say that it is paying off, and people are beginning to find out who we are. And like I said that email customer came to us. One of the proof of concept banks came to us.

I think it was very interesting that the top three bank that we are talking about even though we were working with them a whole new division of that bank came to us through going to our website and filling out a form because they wanted to hear about us so I would say those things are beginning to pay off. I think there's also, as I said, I need more people, more quality people knocking on doors, and we are just looking for them, and we are adding them, and I think we did very well with the two from the industry that we hired this quarters.

So I think it is a combination of things but again this company had shortchanged marketing itself for a very long time and last year was the first year that we spent money on it, and I think it is happening now, and knock wood, it keeps increasing because the rate at which the quality leads are coming in continues to increase and when I say quality leads they are all good but a bar(sp) to me is very different than a superregional kind of bank coming in and saying I need to talk to you guys about what we do.

Roger Liddell

Okay, finally, I had expected you to give texture and commentary about the platform 2.0 in that I felt that it represented a departure, a quantum increase in capabilities and opportunities, and you were excited about it, but there was not a word in the prepared remarks so the alarm would be that it is old wine in new bottles.

Bryan Lewis

No, one thing I did say, Roger, was what we do know and remember, every new client is going on the new platform. What we do know is that we are bringing clients up 50% faster, so that means revenue is coming in the door easier.

We also have clients now that have either already signed up for international documents or are in discussions to do that. That is something that couldn't have been done before the new identity platform came out. So I would say that we have got a lot of very interesting things

happening with the identity platform with clients who are looking to how do I incorporate now the sanctions information or the international information or hey Bryan I want this particular product, I need this information, so I'm going to put you in touch with that vendor because I've got the MSA with Intellicheck, pass that through to us a heck of a lot easier. Now we get to mark that up.

So one of the things the reason I said that we wanted to do this was two things one, banks don't like, the fewer pipes you have coming into you, the fewer chance you have for a cyber event, and the second thing is we know from getting MSAs with banks how long it takes. So we often find out the bank itself when they find something that they want they will go to a vendor who can pass that through, and before that didn't used to be us, now it is. So now they are coming to us because we are the first step, we've got all of the information. Once we get the DL or passport or international document information we can go connect all of the people that we are talking to, all of the different vendors that we are acting as passage for, grab what that client needs, package it up, mark it up and get it to the client.

So that is what we are seeing. We just launched the platform; sales sometimes take a bit, but it is beginning to show fruit.

Roger Liddell

Okay, thank you.

Operator

And we have reached the end of the question and answer session. I will now turn the call back over to Bryan Lewis for closing remarks.

Bryan Lewis

So I just want to thank everybody for dialing in and listening and for your questions. I think Roger kind of stole some of what I was going to say in the closing. The surge in identity theft and fraud, I think, really does highlight why people need our product. It is happening across every vertical, every market, and we can play in every vertical and every market. And I think the fact that we continue to expand our market penetration both in our original core market of credit cards and banking, but we are also proving our value in all of these other new markets as well. So to me, the new identity platform, the ability to do more for our clients is going to be a great thing and I continue to be excited about what lies ahead for Intellicheck, so thank you all very much.

Operator

And this concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.