

**Intellicheck, Inc.**  
**Q3 2019 Earnings Conference Call**  
**November 7, 2019**

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**Presenters**

**Gar Jackson, Investor Relations**  
**Bryan Lewis, CEO**  
**Bill White, CFO**

**Q&A Participants**

**Michael Grondahl – Northland Capital Markets**  
**Scott Buck – B. Riley FBR**  
**Amy Norflus – Neuberger Berman**  
**Jeff Kobylarz – Diamond Bridge Capital**  
**Roger Liddell – Clear Harbor Asset Management**

**Operator**

Greetings, and welcome to Intellicheck's third quarter 2019 earnings call. At this time, all participants are in a listen-only mode. A brief question and answer session will follow the formal presentation. If anyone today should require operator assistance during the conference, please press "\*" "0" from your telephone keypad.

Please note this conference is being recorded. At this time, I will turn the call over to Gar Jackson with investor relations. Please go ahead.

**Gar Jackson**

Thank you, operator. Good afternoon and thank you for joining us today for the Intellicheck third quarter 2019 earnings call. Before we get started, I will take a few minutes to read the forward-looking statement.

Certain statements in this conference call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. When used in this conference call words such as will, believe, expect, anticipate, encourage and similar expressions as they relate to the company or its management, as well as assumptions made by and information currently available to the company's management identify forward-looking statements within the meaning of the Private 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 the 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, November 7, 2019. Management will use the term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further definition, reconciliation, and context for the use of this term.

We will begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer, and then Bill White, Intellicheck's Chief Financial Officer, who will discuss the Q3 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, Gary. And thank you to everyone for joining the Intellicheck Q3 2019 earnings call. As usual I am very excited to be hosting this call because as you can see from the numbers, the changes we have made sense I came on board are working and are fueling our steady progress towards our goal of profitability and beyond. As I will discuss in my prepared remarks we are a far different company than when I started in February of 2018.

I will begin by highlighting some of the numbers from the quarter. Total revenue was up 24% sequentially versus Q2 2019 and up 86% year-over-year. More importantly SaaS revenue was up 40% over Q2 2019, 89% since year-end 2018, and 140% versus the same quarter last year. While at the same time our EBITDA loss is down almost 43% from Q2 2019 and down 57% versus the same period last year.

Things continue to move in the right direction. These are impressive SaaS growth numbers that were driven by refocusing our sales efforts on the companies, primarily banks and credit card issuers, that are bearing the cost of fraud. I am proud of the team, and I know they are proud of their accomplishments. I am equally excited to say that we believe we are just getting started.

Identity theft is not going away, and we believe that will continue to drive demand for our services. In the first half of 2019 there were 3800 breaches exposing 4.1 billion records. This amount of data means that knowledge-based authentication or KBA by itself will not cut it anymore. The documents and identifying information that have been historically relied upon to authenticate who you are have become just too easy to obtain for the fraudsters addresses, license information, Social Security numbers, credit information, medical records it is all out there and easily obtainable.

This is one of the reasons why the FTC sought comments on their proposed identity theft rules. 31 state attorney generals banded together to write a letter opposing some of these changes specifically on KBA stating quote there is a growing concern that in today's world identity thieves can now overcome knowledge-based authentication questions either because the

questions are weak or the answers are readily available online or previously compromised from a data breach unquote.

At Intellicheck, our premise and one that is being adopted more and more is that the first step in an authentication process must be to authenticate that the government-issued ID card presented Israel with near 100% certainty. And that is exactly what we do, on average, over 78,000 times a day and growing for our retail and banking clients where we host the software.

As I have said on past calls, we have been focusing on financial services and with good reason. They have the financial pain point and benefit most from stopping identity theft. For those of you who are new to the story I will explain the main areas we are used and how it is done.

The data is out there, and that personal information is for sale on most of all of us. And as I have said my personal information has been involved in five data sales this year alone, and it is exceptionally cheap. Experian, a global leader in consumer and business credit reporting and marketing services suggest that Social Security numbers can be bought for one dollar, driver's license information for \$20.

When you think about it a driver's license and a Social Security number are all you need to open an account. All of the criminal needs is a driver's license with his or her photo on it and your information. There are multiple websites on both the public and dark web where these fake licenses can be cheaply and easily purchased. Now they can go shopping.

New account openings using stolen information account for an estimated \$3.6 billion in losses in 2018. This does not include the 300 hours it will take the victim to clear their name and credit report or the loss to the retailer as 69% of consumers blame the retailer and change their shopping habits.

What makes it so easy? Think about most times you make a significant purchase at a retailer. They typically ask you if you would like to open a private label or store-branded charge account. The criminals know this and accept the offer to open an account. All they need is a Social Security number, income, and a driver's license all of which they bought online.

In seconds they have made an expensive purchase in your name and since it all points to you making the purchase, you now have a 300-hour headache to clear your name. And often we aren't talking small numbers here. A woman in Boston came home from vacation to a letter from a law firm telling her that she owed \$48,000 on a car she never bought. It turned out that someone had stolen her identity and bought a Maserati, a Lexus and a BMW in South Florida, \$200,000 in loans from TD Bank, BMW Financial, and SunTrust.

The second way that criminals steal from you is by shopping where you have an existing private label credit card account, and they engage in a card not present transaction. I don't carry a lot credit cards around, but I do like the perks in the points. When I do make a purchase, I just

tell them I do not have my card, so they look it up. All they ask from me is my license and the last four of my social security number.

If criminals do the same and again the onus is on me to clear my name. The losses estimated as a result of these fraudulent transactions for card not present are expected to amount to about \$130 billion between now and 2023.

The third main area where we help retailers combat fraud is nonreceipted returns. Studies here suggest retailers lose \$9.7 billion a year with the National Retail Foundation reporting that each incident cost a retailer \$1700 on average. The perpetrators here are generally organized crime rings returning stolen goods for gift cards that are easily and quickly monetized.

But it's not just the retailers; let's look at the banks. At the retail branch criminals will pose as you to empty your accounts. For example at the end of September a man walked into an Ohio Fifth Third Bank branch posing as a Florida business owner whose company had an Ohio location; he withdrew \$7000 from that business account using a fraudulent license.

All of this is quickly and easily stopped with our technology. A quick scan of the license and Intellicheck's technology solution authenticates the license stopping the criminals or almost as importantly to our clients speeds up the transaction or acquisition of good customers with a high lifetime value in a near frictionless manner. Our clients are realizing the truth of this which is why we are expanding not only with existing clients but within new clients.

Now let's talk about some of our wins. As I discussed on the last call, I will name the banks by number to help everyone keep track of them. Bank number one continues to be one of our biggest supporters and references. As I mentioned on the last call we have been in discussions with them about other areas in the bank that can use our authentication services.

This month they will be deploying our web-based authentication product to their fraud call centers. This product has been well received in the call center space as it requires no integration, just a username and a password for the call center employee, and they can be instantly authenticated. We are also in discussion with them regarding possible bank branch deployment in late 2020.

Bank number two saw a 75% sequential revenue growth over Q2 driven by the new pay-per-scan pricing model and the addition of multiple retailers representing 1258 new locations between July and the end of October.

Bank number three finally got their first implementation done and brought live a 1000+ location electronics retail chain in October. Additionally they are planning to deploy our Intellicheck technology solution to their 700+ branch locations by the second quarter of 2020.

Bank number four was a very busy bank this quarter. We saw a 136% increase in revenue over Q2 2019 driven by their call centers for their own branded credit cards as they continue deployment to additional retail call centers. They deployed our authentication services to their 700 branch locations at the end of the quarter and brought live two of their retailers.

They are also going live this month with our web product for their auto loan division, a new vertical market for us. We are currently discussing additional retail partners and how this bank might sell our authentication services to their other banking clients.

Bank number five, the neo-bank(sp) is, as I said in the last call, not expected to be high revenue, but has proven to be a successful test of the integration with our facial recognition partner.

I am also very pleased to say that we now have a bank six. Bank six is actually a fintech company and a 700+ location provider of a payday and unsecured installment loans. They expect to be live in all locations by year-end.

We are also seeing growth from a couple of retailers who pay us directly. We saw a 51% revenue growth at the office supply retailer who uses us for non-receipted returns. The 3000+ location department store retailer where we only parse and fill out the application, not authenticate, drove a 51% increase in revenue over Q2 as they completed deployment to all locations. In addition, as we had planned when we sold a parsing-only solution, we are now in discussions with this retailer's bank regarding how we can pilot authentication and start stopping fraud.

We started a pilot with a 580 location department store chain, which is going very well, and full deployment is expected by the end of Q1. This retailer is paying us directly as they take the loss on card not present and non-receipted return transactions. We are currently in discussions with their bank about adding account openings in 2020. This is currently a limited store fixed fee pilot that will convert to a per-scan model once the pilot is over.

We just finished integration with the automotive dealership digital compliance enforcement platform that I spoke about last call. This opens up over 500 auto dealerships as potential clients as we pursue this new vertical market through logical partnerships. Sales of Age ID continue to be strong. In Q3 we brought on board 88 new clients, with three of them being law enforcement bringing the total number of law enforcement agencies using Age ID to 65 with 21 at the state enforcement level.

Another important development expands our footprint outside the U.S. We now have multiple retailers in Canada using our authentication tools, which is a first for us. Another important development is the exceptional track record we have realized with our implementation team. I am very pleased to report that under Bill White the implementation team has been a complete and total success. So far, in 2019 we have done 36 integrations with retailers and banks, compare that to three in all of 2018.

As we look at the change that we have implemented you will likely remember that I discussed on the last call that with a per-scan model we would be introducing some cyclical to our revenues. While the data for the statistics that follows is based on a limited number of retailers we have with a full year of full deployment at all stores the scanned volume suggests that 21% of annual scans come in Q1, 23% in Q2 and Q3 and 33% in Q4. As we have more and more clients fully deployed for a full cycle we will refine these numbers.

Looking toward the upcoming year, we are excited about a robust pipeline of implementation for 2020, but we still have a lot of work to do. I started one of my first earnings calls as CEO saying that we believe that the market was coming our way, and I believe we were correct, and it still is. Identity theft is not going away.

Against the backdrop of unrelenting criminal assaults on financial data and the record-setting pace of data breaches, the need to prove you are who you say you are is only going to grow and where you need to prove it expand. This is a very large market, and we are just beginning to penetrate it. All of this adds up to what we believe are exciting prospects for Intellicheck.

As you look at where we have been and where we are today I believe you will agree that we are a drastically different company than we were when I started. Our redefined focus on who we sell to, how we sell and how quickly we implement are bringing clear results that we believe will continue into 2020. These are the things that keep me so excited about Intellicheck. With that I will turn it over to Bill to discuss our financial results in more detail.

### **Bill White**

Thank you, Bryan, and a good day to our shareholders, guests, and listeners. I would like to discuss some of the financial information that was contained in our press release for the third quarter ending September 30, 2019 which we released this afternoon. The company plans to file our Form 10-Q with the Security and Exchange Commission next week.

I will begin with our third-quarter results. Revenue for the quarter ended September 30, 2019 grew 86% to \$1,930,000 versus \$1,040,000 for the same period last year. Our record SaaS revenue was approximately \$1,564,000 for Q3 of 2019, a 140% increase from \$651,000 in Q3 of 2018, and a 40% sequential increase from approximately \$1.121 million in Q2 of 2019. Gross profit as a percentage of revenue was 86.6% for the quarter ended September 30, 2019 compared to 89.1% for the quarter ended September 30, 2018.

Operating expenses which consist of selling, general and administrative and research and development expense increased 8% or \$170,000 to \$2,252,000 versus \$2,082,000. The increase was primarily driven by an increase in development personnel to support our growth and an annual incentive bonus plan, which is contingent upon achieving certain goals established by the board of directors and compensation committee.

The company posted a net loss of \$568,000 for the three months ended September 30, 2019 compared to a net loss of \$1,131,000 for the quarter ended September 30, 2018. The net loss per diluted share was \$0.04 versus \$0.07 in the prior year. Adjusted EBITDA for the quarter ended September 30, 2019 improved significantly to a negative \$457,000 compared to a negative \$1,048,000 in the quarter ended September 30, 2018. Interest and other income were negligible for the quarters ended September 30, 2019 and 2018.

Now I would like to focus on the company's liquidity and capital resources. As of September 30, 2019 the company had cash of \$2.8 million, working capital defined as current assets minus current liabilities of \$2.6 million, total assets of \$13.4 million, and stockholders' equity of \$11.2 million. During the nine months ended September 30, 2019 the company used net cash of \$1.6 million compared to a net cash used of \$2.6 million during the nine months ended September 30, 2018. Net cash used by operating activities was \$2.1 million for the nine-month period ended September 30, 2019 compared to \$3.2 million for the same period in 2018.

Net cash provided by investing activities was \$15,000 for the nine months ending September 30, 2019, compared to net cash used in investing activities of \$102,000 from the nine-month period ended September 30, 2018. We generated cash of \$456,000 from financing activities for the nine months ended September 30, 2019. We generated cash of \$456,000 from financing activities for the nine months ending September 30, 2019, compared to \$688,000 for the same period last year.

On February 6, two 2019 the company entered into a revolving facility with the Citibank. This agreement allows for maximum borrowings of \$2 million secured by collateral accounts and bears interest at Citibank's base rate minus 2%. As of today there are no amounts outstanding under this facility. The company currently anticipates that our available cash, as well as expected cash from operations and available under the revolving credit facility, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. As of December 31, 2018, the company had a net operating loss carryforward of approximately \$15 million.

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

**Operator**

Thank you. We will now be conducting a question and answer session. If you would like to ask a question, press "\*" "1" on your telephone keypad, and 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 that are using speaker equipment it may be necessary to pick up your handset before pressing the "\*" keys.

One moment please, while we poll for questions. Thank you. Our first question is from the line of Mike Grondahl with Northland Securities. Please proceed with your question.

**Mike Grondahl**

Hey, guys. Congratulations on really nice revenue growth. Which bank, is it bank four that really sticks out the most for you guys where you called out that 136% increase in revenues, and they are kind of embracing it in the branches, retailers, and web? Do you see other banks sort of eventually getting there, too?

**Bill White**

Yes. Thanks Mike for the compliment. We do. That particular bank, I will say they seem to be very technically savvy. It's funny in talking to them; they think they move slow you know, and I am comparing them to some of our other banks that move at glacial pace. But they clearly see the value of what they are doing, and that is why you know what we do for them, and that is why they are looking for every place that they can put in the authentication. So where they see fraud they are looking to figure out which one of our tools they can put in there to stop it.

**Mike Grondahl**

And secondly like you highlighted bank six, this fintech company but are there which I think you are highlighting it because they are close to implementation and you have signed them and all of that but do banks seven, eight and nine, are they in the funnel in a kind of only a matter of time before you can talk about them or what does that pipeline look like?

**Bryan Lewis**

Yes, we are pretty much talking to you know every issuer out there, and they are all trying to figure out how to get there. That bank that is at that 3000 store that is behind them they are talking about pilots to be able to check the efficacy of the authentication, so they are one also very, very large credit card issuer.

We have got other banks that are talking to us that all they care they don't do credit cards, but they are getting hit in their branches. We have got again a lot of these payday uncollateralized loan folks who are getting hit for you know upwards of \$2500 on a loan that are very interested in it, and many of these folks are looking at that web product that we have because it is instantaneous for them. There is no integration needed. So I would say pipeline I am very happy with the pipeline that Paul and his team have out there for us.

**Mike Grondahl**

Got it. Maybe just lastly was there anything lumpy in 3Q or would you call that pretty core driven and then related to that your statement about we will just say the scans being 33% in the fourth quarter that would imply you are kind of comfortable with revenue growing sequentially again?

**Bryan Lewis**

Yes, there was nothing lumpy, there was no major hardware purchases or anything like that in Q3. I think it was just very good sequential SaaS growth brought about by a couple of things,



part of it being bank number two going to the per-scan model versus the very low per-store model and then also just bringing on more and more retail locations.

**Mike Grondahl**

Got it, great. Thank you.

**Bryan Lewis**

Thanks, Mike.

**Operator**

Our next question is from the line of Scott Buck with B. Riley FBR. Please proceed with your questions.

**Scott Buck**

Good afternoon, guys. I was curious you I know that the scanned count steps up here in the fourth quarter with the seasonality, does that slow the pace of implementations in the fourth quarter? I mean, are retailers, or I guess your financial service customers kind of shutting you off until Q1, or will you continue to implement throughout the quarter?

**Bryan Lewis**

By and large, no retailer wants to touch their point of sales system post-October. You know you look at the amount of money that Target lost on one Sunday during the summer when their point of sales system went down; nobody wants to see something like that catastrophic happen during their big period. So while the retailers aren't, the bank branches they don't really care, so we are continuing to roll out retail branches, but post-October 31, the retailers all lock down.

**Scott Buck**

Got it. That makes sense. And second, in terms of the kind of six bank, quote banks that you have signed currently if you were to exhaust all of the potential revenue options with those six what kind of pipeline does that give you in terms of revenue and I guess you know timeline in terms of implementation?

**Bryan Lewis**

So one of the things that we did was kind of size the market comparing it to clients that we have. We know the major credit card issuers, you know whose programs they run and when we looked at retailers where they run the programs for that or like other clients we have where we know that we could help we look at that market as between \$180 million and \$250 million in annual SaaS revenue. That is then predicated on getting all of those retailers up and on the system, so that could take quite a while.

It also doesn't account for any revenue that we might be bringing in for the banks own branded credit cards, their retail branches, or again as we start to go into other areas where they are

giving out loans you know like automotive. That was purely \$180 million to \$250 million just purely for private label credit cards, so the market is you know I think pretty large.

**Scott Buck**

All right. Perfect. I appreciate it, guys. Thank you.

**Bryan Lewis**

Thank you.

**Operator**

Thank you. As a reminder to ask a question today, you may press "\*" "1". The next question comes from the line of Amy Norflus with Neuberger Berman. Please proceed with your questions.

**Amy Norflus**

I am sorry I came in a little late, so I missed the prepared remarks, and there is no transcript yet. I had an experience where I went into Best Buy, I didn't have my card, they asked for my license, and then they ran some scans, and when I spoke with the associate there he said this is a rollout from corporate. I asked him if they had anything to do with you, but they, you know, I guess the associate wasn't well versed on it.

Can you kind of tell me if that is you? I mean I don't know if you are allowed to mention Best Buy. Could we use large retailer, electronics but can you kind of tell me a little bit about that?

**Bryan Lewis**

Well, we are under NDAs with our clients, you know, so we can't go out and say their name, but I will say that in the prepared remarks I did discuss a 1000+ location large retail electronics chain.

**Amy Norflus**

Okay. And so this is mandate so we should expect to see this from other retailers where it's like you know when you tell us that the number or the chain it will be rolled out and it will be standard, and it is on a pay per scan basis?

**Bryan Lewis**

Yes, that is the way everybody is using it. Once it is out there they use it for all purposes. So since it is integrated into their point of sale system, that is exactly what they do to stop the fraud is they are going to scan the license, you know, and again, the use cases non-receipted returns they certainly will scan it. Also card not present, I forgot my license, or I want to open up credit accounts. They will scan for all of those purposes.

**Amy Norflus**

And would you find the results at expectations or better than expectations compared to what you estimated?

**Bryan Lewis**

In terms of estimating what? I'm sorry.

**Amy Norflus**

So you went into this retailer, and you're just like okay, we estimate X number of scans and now that the scans have been happening are (unintelligible)?

**Bryan Lewis**

Yes, most of them tend to be rather upfront about the scans. You know this particular retailer doing on order of about you know 20,000 scans a day.

**Amy Norflus**

And you see it on a real-time basis, so they scan and you automatically see it in corporate that it was a scan or how do you reconcile?

**Bryan Lewis**

Yes, it is all real-time. It gets reporting, it comes back to--the API comes back to our software in the cloud. We run the authentication; we parse the data, sent it back to them. We clear the PII out of our system, but we keep a record of scan date, location, store number and what was the result. Was it a good license, a fraudulent license or an expired license?

**Amy Norflus**

Did you give numbers as to how many are fraudulent and how many you have saved, or I don't know the right terminology? How many frauds you have (unintelligible)?

**Bryan Lewis**

Off of the top of my head, I don't know what this particular retailer's fraud rate is. I think last I saw it was somewhere over, just over 1% the last time I ran the numbers, but I haven't looked at an extended period. The range of fraud runs anywhere from the longer a store has our stuff in place the fraud goes down. So for our long-running stores we average about 0.6% of the time there is a fraudulent license.

We have you know some of the high-end retailers we have over 5% of the time they scan a license they are fraudulent. So it really depends. You know jewelry stores have higher fraud rates than you know your small, your lower-end retailer. So it is sort of by industry the numbers are slightly different.

**Amy Norflus**

And are you allowed to take these results and market it to other prospective clients and say look, these are the results we have from this person or person X and we can promise you and

show these type of results? So they have no problems with you taking that information and using it for marketing?

**Bryan Lewis**

No, not at all. The good thing is just about every single one of our clients is willing to get on the phone with any other client or prospect that we have to tell them how good we are and what we have done for their fraud. You know, like, for example that you know I talked about on the call we started a pilot with a 580-store department store chain. They came to us because one of our other clients was talking the fraud people, the risk people were talking, and this 580-store chain said what do you guys do, and they are like go talk to Intellicheck, it stops it.

So the clients are they all look at it as we are fighting fraud together so they are very happy to band together and talk about what they are doing and they just don't want it out in a press release which is you know unfortunate but we are going to have them all in our offices, most of our large clients, they want to get together and see how other users of our technology are using it, make sure that they are getting the best use case out of it. So, by and large, we have very happy clients that are willing and able to help us sell to other clients.

**Amy Norflus**

And are you seeing the same fraudulent ID through various channels or I mean, like if you pick up John Jones, do you find this similar ID being used in two or three locations? If they are not used at yours do they try somewhere else? I mean can you do any data stats behind the IDs that are coming in and locations or geographies? Is there anything to garner about that?

**Bryan Lewis**

We currently have--we don't save the data on that would allow us to say that it is the same license because to do that we would have to save some of the PII, but we plan on doing in 2020 is hashing the data so that there is nothing there, but we would know that we are seeing this particular license multiple times. You know we wouldn't know the name or anything, but we could tell, and the point of that is we want to be able to give out alerts to our retailers and banks that we are seeing a lot of frauds coming in from X states, or we are seeing a lot of fraud picking up in a specific state; so have your people be aware.

**Amy Norflus**

And are you allowed to, so the person who has given you the fraudulent ID are you allowed to use their image so that you can say at you know 203 register seven somebody had fraudulent ID and oh, by the way we have a picture of this person?

**Bryan Lewis**

We don't save the image because all we are doing is scanning the back of the license. Some of our clients particularly bank number four with the web tool when they send a text to the client you know it's a prospect who's looking for a credit card we scan the back of the license, authenticate it, they also asked the user to take a photo of the front of their license, and we send that to the bank, but we don't store any of that.

**Amy Norflus**

No, I would say the fraudsters so--so if I went to the register and I tried to use fraudulent ID most registers have cameras. Are you working with the retailers and the cameras to get the images of these people that are trying to--I mean I just don't know where it goes, but I mean it's another--

**Bryan Lewis**

Yes. We haven't talked to the loss prevention people about that. You know I think a lot of the time what we are finding is that the salesclerk at the store is trained to just try and get that person out of the store as quickly as possible. You know generally they will just say I can't scan this ID, do you have another form of identification? Usually, the bad guy knows they are caught, they take the license, and they walk as quickly as possible to the door.

**Amy Norflus**

But if you were to work with fraud prevention, there's nothing that, you don't get any sort of royalty because you identified the fraudster?

**Bryan Lewis**

No.

**Amy Norflus**

Okay. I'm sorry. Last question the scan, so if you do more than 20 or 30 or X number of scans does the price per scan go up or down, or is there some sort of scale or something like that? Probably it goes down I would guess.

**Bryan Lewis**

Yes, we scale when you start to hit you know your first million scans a month, your second million scans a month, that kind of things. So there is, you know our whole point in the per scan model and having tranches of different pricing was we want the banks to be incentivized to bring as many of their retailers on board as possible and you know I don't care where the scan comes from from the bank, it's just a scan.

So it can come from five or one retailer, I don't care, so what we wanted to do is make sure that the more retailers they brought on board you know although they will be paying us more their marginal cost of reducing fraud or eliminating fraud goes down.

**Amy Norflus**

Perfect. Great. Keep up the good work, guys. Good job.

**Bryan Lewis**

Thanks, Amy.

**Amy Norflus**

Thank you.

**Operator**

The next question comes from the line of Jeff Kobylarz with Diamond Bridge Capital. Please proceed with your questions.

**Jeff Kobylarz**

Hi, gentlemen. A question about if you could say with of all of the deployments you had as of September 30, can you say what the kind of annual run rate of revenue would be?

**Bryan Lewis**

Not yet because it is sort of those guys are building up, and again I'm not quite sure yet of what cyclicity will be so. Through that period, through the end of October, you know stores were being brought live, so it's not like we had full deployment to some of the retailers, so no, I can't at this point in time.

**Jeff Kobylarz**

Okay. All right. And I heard you say earlier in the call in your prepared comments you said that you said 78,000 times a day your software solution is called upon. Did I hear that right? 78,000 scans a day?

**Bryan Lewis**

Yes. Over that. Yes, that is an average number. And then again I expect that number to be going out.

**Jeff Kobylarz**

Right, because of seasonality and also deployments, I guess?

**Bryan Lewis**

Correct. You are correct

**Jeff Kobylarz**

All right. So 78,000 was the average for the quarter, September quarter?

**Bryan Lewis**

Yes. I think I went back like four or five months, so yes.

**Jeff Kobylarz**

Okay. All right. And then just for perspective, you are just talking about this electronics retailer that was doing 20,000 scans a day, is that right?

**Bryan Lewis**

Yes. That is why I expect that number to go up.

**Jeff Kobylarz**

Right. Okay. I just wanted to understand the proportion here. All right. Thanks, guys. That is all I had.

**Bryan Lewis**

Thank you.

**Operator**

Thank you. At this time, I will turn the floor back to management for closing remarks.

**Bryan Lewis**

We can take one more call from I see Roger Liddell (unintelligible).

**Operator**

Thank you. Roger, your line is open for questions.

**Roger Liddell**

Yes, thank you. Lovely quarter, thank you. Just to clarify several points being made, bank number four, as I recall that was 4500 customer service seats. Do they use the system on each and every incoming call or does it depend on what the customer is calling in for that triggers whether they start utilizing the system?

**Bryan Lewis**

It's for at this point in time it is for credit applications for their credit card. You know for that bank's branded credit card.

**Roger Liddell**

I see. Okay. So obviously that is crucial function, so every one of those calls coming into the 4500 seats is going to involve a scan?

**Bryan Lewis**

Correct.

**Roger Liddell**

Okay. And is there enough experience in hand now so that the applicability to other call centers is overwhelming and it's just a matter for the dominoes to start falling?

**Bryan Lewis**

Yes. This went so well with that you know their call center for the cards, now they are rolling it out for their auto loans. You know bank number one is rolling this call center product out to their fraud centers, so we are finding it is a really nice market for us and again because it is zero integration they just go to a website and log in and they are instantly authenticating so we are doing a big push on call centers for sure.

**Roger Liddell**

Can you characterize the timing? I don't mean explicitly, but are we looking at Q2 '20 before incremental, additional call centers are beginning to fall into place?

**Bryan Lewis**

You know we've got a lot in the pipeline. I am not sure exactly when they are looking to roll, but I would expect certainly we will see more between now and the end of Q2.

**Roger Liddell**

Okay. Pipeline, you just referred to it. In prior calls or interviews that you have done LB Micro, for example, you have put some texture into how you define pipeline, and maybe I missed it in the avalanche of stuff I was trying to write down but could you take a minute and clarify any way you wish to what is in the pipeline and how we should think about it?

**Bryan Lewis**

Yes. We have got about 20, 21 retailers in the pipeline to go live so various stages of implementation. Again you know everything locks down between now and after kind of return season in January, but then you know they are all looking to pick up with their implementations. So plenty of business to be had even with the existing banks you know if we didn't bring anybody else in I would be very happy with the revenue that we have on the hook just from the existing bank.

**Roger Liddell**

You know I think the last time you gave comparable number was it was 15. So that is a big run.

**Bryan Lewis**

Yeah, and that includes everybody that we have also brought up, so already brought live, so we are very happy with the pipeline and I think it shows what the banks are thinking about our service as well; you know what it is saving them.

**Roger Liddell**

Yes. So again pipeline those who are fully implemented they are up and running, they are not in the pipeline, the pipeline is those that you are in various stages of bringing online, correct?

**Bryan Lewis**

You are correct, Roger.

**Roger Liddell**

Yes. That's very nice. Facial recognition bank number five, the knife cuts many ways on facial recognition and could expose you to issues of mistaken identities and liability in theory anyway. Do you see facial as an integral part of going forward, or should we think of it as a one-off that may ripen later on?

**Bryan Lewis**

I believe that in an increasingly mobile world, facial will be more important than it is today. You know right now if you look at the vast majority of our revenue in the core business it is really in-store. That is where most of authentications come, but as I say to everybody I look at my kids



who are in their 20s, and they do everything on their telephone but talk, and so it is how they open up their investment accounts, it is how they do all of those things.

So when you are trying to authenticate somebody from afar you know I still believe the first step is make sure that the plastic is real. Is the driver's license an authentic license? And then you know take a photo of the front, so we now have your picture and then do facial with (unintelligible) to make sure that that license is indeed authentic and I am still in control of it. I think that will become very important as more and more things go to mobile enrollment and you know mobile use.

Right now it is one of those things people want to know that you have. It's almost like a checkbox; they want to see that you do have a full solution, but not many people have enrolled it or have decided to use it. I think it is going to be mostly for things like opening up bank accounts.

I think that the retailers would be a little bit worried about that additional friction step and how many people they might lose in the credit card application process if they made them do facial recognition as well. It is always sort of a battle of how much do I want to protect myself before you know I have diminishing returns because now I am potentially losing good customers with a high lifetime value because they didn't want to do you know the extra friction steps.

**Roger Liddell**

Okay. At least several years ago, you had facial recognition technology that you either had developed or acquired or JV'ed. Is that in use, or has the horizon moved, and we are into a whole new world?

**Bryan Lewis**

Right now, we partner with multiple vendors of facial recognition technology. I think that it is sort of there are clear leaders in the app space, clear leaders in the webspace. I think all emerge and become equally good in all of the different places that they can be invoked.

I would also say that there a lot of facial recognition companies out there, so they pop up a lot. We are not seeing any clear winner in that space, which is why at this point in time we are fairly agnostic; we will work with whoever the potential client wants us to work with, but you know we have got a couple of very good relationships with some of the facial companies. We are already integrated with a couple of them, so from our end it is you know a very simple implementation.

**Roger Liddell**

Yes, okay. Turning to a whole realm where the need is so urgent, vaping and age ID. You elected not to talk about that in your prepared remarks. Should we ignore that, and there is a small probability that something could happen there?

**Bryan Lewis**

You know I think I was actually just on Capitol Hill lobbying for the legislators to do something more than they are doing now, pointing out that the FDA has an app that they put out there that is supposed to help. I have yet to find a fake license that the FDA app can catch.

You know certainly Juul is getting raked over the coals, they know they need to do something more than they are doing from a PR standpoint. The law, unfortunately, all it says is I need to do a visual inspection of a license and I keep trying to get the legislators to understand. Go ahead raise the vaping age to 21. We did that in the '80s for alcohol, yet 11% of all alcohol is consumed by minors, so you are not going to stop it just by raising the age. And the fact that the technology has outpaced the law, and they need to make the laws say that you have to authenticate.

So you know I had some good meetings with some of the legislators. I think they kind of get it. I think they believe it will be very hard at a federal level to mandate something like that. It might be easier to do it at the state level, so you know we are working all of the angles on it, but certainly I think the Center for Lung Disease said something on the order of 1700 kids a day started vaping every day last year. So it is an epidemic, something needs to be done, everybody knows it. I think the only way to stop it is to require authentication.

**Roger Liddell**

Okay. Well done in the quarter. Thank you for answering the questions.

**Bryan Lewis**

Thank you, Roger.

**Operator**

Thank you. I will now turn the floor back to management for closing remarks.

**Bryan Lewis**

Well, thank you, everybody, for sitting in on the call. It was an exciting quarter. I think you know as I said in my prepared remarks what we have changed is working. We are a very different, fun, dynamic company. We are all having fun here. We are helping our customers, you know, in dramatic ways, and we look forward to continuing our growth, so have a good evening, everyone.

**Operator**

Thank you. This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.