

Intellicheck, Inc.
Form 10-K
March 21, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT
OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE
ACT OF 1934

For the transition period from _____ to _____

Commission File No.: 000-50296

Intellicheck, Inc.

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(Exact name of Registrant as specified in its charter)

Delaware 11-3234779
(State or Other Jurisdiction (I.R.S. Employer
of Incorporation or Organization) Identification No.)

535 Broad Hollow Road, Suite B51, Melville, NY 11747
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (516) 992-1900

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.001 par value NYSE AMERICAN
(Title of Class) (Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes [] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes [] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No []

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check One):

| | | | | |
|--|--|---|---|--|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input checked="" type="checkbox"/> | Emerging Growth Company <input type="checkbox"/> |
|--|--|---|---|--|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: \$28,833,510 (based upon the closing price of Issuer's Common Stock, \$0.001 par value, as of the last business day of the Issuer's most recently completed second fiscal quarter (June 30, 2018)).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

| | |
|---|---|
| Common Stock, \$0.001 Par Value (Title of Class) | 15,638,765 (No. of Shares Outstanding at March 21, 2019) |
|---|---|

DOCUMENTS INCORPORATED BY REFERENCE: Proxy for Annual Meeting of Stockholders May 8, 2019

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PART I

Item 1. Business

OVERVIEW

We were originally incorporated in the state of New York in 1994 as Intelli-Check, Inc. In August 1999, we reincorporated in Delaware. On March 14, 2008, our corporation was renamed Intelli-Check - Mobilisa, Inc. after the consummation of the merger with Mobilisa, Inc. (“Mobilisa”) (references to “Intelli-Check” in this annual report refer to the Company prior to the merger with Mobilisa). At the closing of the merger, our headquarters were moved to Mobilisa’s offices in Port Townsend, Washington. On October 27, 2009, we made a further change in our name to Intellicheck Mobilisa, Inc. On May 4, 2017, with the approval of our shareholders, we changed our name to Intellicheck, Inc. (“Intellicheck,” “we,” “our,” “us,” or “the Company”). On August 31, 2009, the Company acquired 100% of common stock of Positive Access Corporation (“Positive Access”), a developer of driver license reading technology. The acquisition of Positive Access expanded the Company’s technology portfolio and related product offerings and allowed the Company to reach a larger number of customers through Positive Access’s extensive distribution network. Effective March 19, 2018, we relocated our corporate headquarters from Jericho, New York to Melville, New York. On December 31, 2018, we formally merged the Mobilisa and Positive Access subsidiaries into one corporation under the name Intellicheck, Inc.

We are a prominent technology company engaged in developing, integrating and marketing threat identification and identity authentication solutions to address challenges that include retail fraud prevention, law enforcement threat identification, and mobile and handheld access control and security for the government, military and commercial markets. Intellicheck’s products include Retail ID®, a solution for preventing fraud in the retail industry; Age ID®, a smartphone or tablet-based solution for preventing sale of age-restricted products to minors; Law ID® a smartphone-based solution used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities.

We plan to expand our business in the near term by pursuing a strategy designed to increase market share in our existing markets and expand into new product markets that are expected to benefit from fraud prevention, enhanced safety and regulatory compliance. For example, we have extended our technologies into online applications to provide enhanced safety, regulatory compliance and fraud prevention for the billions of transactions that occur online each day. We have also incorporated biometric, facial recognition and other enhancements to several of our current product offerings.

We plan to leverage our intellectual property in the markets we are targeting to strengthen our competitive position.

Our primary businesses include Identity Systems products, which include commercial applications of identity card reading authentication and government sales of defense security and identity card applications.

Our technologies address problems such as:

Commercial Fraud and Risk Management – which may lead to economic losses to merchants from check cashing, debit and credit card, e-commerce as well as other types of fraud such as identity theft that principally use fraudulent identification documents as proof of identity;

Instant Credit Card Approval – retail stores use our technology to scan a driver license at a kiosk or at the Point Of Sale (POS) and send the information to a credit card underwriter to get instant approval for a loyalty-branded credit card. This technique protects consumer data and is significantly more likely to result in a completed transaction compared to in-store personnel asking customers to fill out a paper form;

Unauthorized Access – our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern; and

Inefficiencies Associated With Manual Data Entry – by reading encoded data contained in the bar code and magnetic stripe of an identification card with a quick swipe or scan of the card, where permitted by law, customers are capable of accurately and instantaneously inputting information into forms, applications and the like without the errors associated with manual data entry.

IDENTITY CARD READING AND VERIFICATION SECTOR

Background on Identification Documentation

Driver license

The driver license is the most widely used form of government issued photo identification in North America. The Real ID Act, which became federal law in May 2005, recognizes that the driver license is also a quasi-identification card. In addition to its primary function, the driver license is used to verify identity for social services, firearm sales, check cashing, credit card issuance and use and other applications. Our technology can read the electronically stored information on all currently issued driver licenses (even those that do not comply with the AAMVA/ANSI/ISO standards). Today, all 50 states, the District of Columbia and all 13 Canadian provinces/territories electronically store information on their driver license.

Non-driver identification card

Each U.S. and Canadian Jurisdiction also provides a non-driver identification card as an alternative form of identification for those unable to acquire a driver license. These identification cards are issued with most of the same data found on a driver license. Military documents also provide a means of identification and contain encoded data as well. Since driver licenses are the most widely used form of legally acceptable government documentation, we refer to all these identification documents as “driver licenses.” Our ID Check® software can perform its function on all these forms of identification.

Current Challenges Associated with Verifying Identification Documents

The high-tech revolution has created a major problem for those who rely on identification documents. In an age where scanners, computers and color printers are commonplace, fake IDs of the highest quality are easily obtainable from many locations including college campuses and from multiple sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices can easily alter properly issued ID. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

committing identity theft;
improperly boarding airplanes;
committing credit card, debit card and check cashing fraud;
illegally purchasing firearms;
unlawfully committing pharmacy fraud, including false narcotic prescriptions;
committing refund fraud;

gaining entrance to high profile buildings and sensitive infrastructures,
engaging in medical fraud;
purchasing age restricted products such as alcohol and tobacco while under age; and
obtaining welfare or other government benefits.

Given the ease with which identification can be falsified, simply looking at a driver license may not be sufficient to verify age or identity and determine if it is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that a document authentication system which can accurately read the electronically stored information is needed. We possess patented technology that provides an analysis of the data contained on the encoded formats of these identification documents by reading and analyzing the encoded format on the magnetic stripe or bar code on the driver license and comparing it against known standards.

OUR PRODUCTS AND SERVICES

Our Products and Services are generally sold as Software as a Service (“SaaS”) where customers pay for our cloud based service.

Identity Systems Products and Services

Our Identity Systems are marketed to the Commercial and Government identification sectors.

Commercial Identification

ID Check® Family — Solutions and Benefits

Our ID Check® technology is our advanced document verification software. ID Check® is contained in our software products and is capable of reading and verifying in one swipe or scan the encoded format contained on U.S. and Canadian driver licenses, state issued non-driver identification cards, and military IDs. Our technology has the ability to verify the encoded formats on all currently encoded documents, even those that do not comply with the standards of the American Association of Motor Vehicle Administrators (“AAMVA”), the American National Standards Institute (“ANSI”) and the International Standards Organization (“ISO”).

We believe that ID Check® and our family of software solutions contain the most advanced, reliable and effective technology, providing users with an easy, reliable, and cost-effective method of document and age verification. We have received/acquired encoding formats from multiple sources. This information, combined with our proprietary technology, enables all our ID Check® software products to read, decode, process and verify the encoded formats on driver licenses. As jurisdictions change their documents and guidelines, we believe our software can be adapted to these changes.

The ID Check® technology is embedded in many of our product lines including Retail ID®, Law ID®, Defense ID®, Age ID®, Guest ID®, Access ID[™], and PORT ID[™] some of which are discussed below.

ID Check® software does not require a connection to a central database to operate, thus negating privacy concerns. Many of our products have the ability to operate add-on peripherals such as printers, fingerprint readers and other devices.

The ID Check® process is quick, simple and easy to use. After matching the driver license photograph to the person presenting the document for identification, the user simply scans or swipes the driver license through a data capture device. The software quickly determines if:

- the format of the document is valid;
- the document has been altered or is fake, by displaying the parsed, encoded data for comparison with the printed information;
- the document has expired; and
- the encoded data contains a date of birth equal to or greater than the legal age to purchase age restricted products, such as alcohol, vaping, cannabis and tobacco.

Then, the ID Check® software applications can:

- respond to the user by displaying the format verification result and the parsed information;
- save information that is permissible by law to memory; and
- print a record of the transaction including the verification results if a printer is part of the hardware configuration.

ID Check® SDK

Our software product, ID Check® SDK, is designed for software developers that wish to incorporate our proprietary ID Check® technology into their applications. We currently have multiple license agreements with third parties for integration and sub-licensing of our software applications into their core applications. The SDK is available for multiple platforms such as Microsoft Windows, Windows Mobile, AIX, certain versions of Linux and is also offered as a SaaS product that provides a platform independent & centralized update solution for quicker and easier integration. It can easily be ported to other platforms as the need arises. New integrations are being sold as hosted cloud-based SaaS products and the customer purchases monthly, quarterly, annually or longer subscriptions for use of the software.

Retail ID®

Our Retail ID® application is a proven identity authentication solution that can instantly and accurately authenticate identification documents such as a driver license and is available in several deployment strategies. This solution is designed to deliver better service, increase loyalty and credit card programs and reduce fraud. Retail ID® reduces liability risks and ensures compliance by checking all retrieved data against each state's privacy laws and regulatory requirements.

Retail ID Online®

Retail ID Online® instantly and accurately authenticates an on-line user's identification documents such as a driver license and helps eliminate fraud associated with online transactions. With online fraud growing daily, this new product is the right solution at the right time.

Retail ID Mobile®

Retail ID Mobile® provides the fraud reduction benefits of Retail ID®, without the time and expense of integrating the Retail ID® application into the customer's point of sale system. With Retail ID Mobile®, the customer simply downloads the application to a mobile device such as a tablet or smartphone and instantly begin receiving the benefits from Retail ID's fraud reduction capabilities.

Age ID®

Age ID® is the designation for multiple hand-held devices that we offer our customers. The form-factor is a small, lightweight mobile computer with a durable housing design that has 2-D bar code and magnetic stripe reading capabilities. By allowing the user to move between locations, Age ID® products provide the ability to check the encoded format of ID documents at multiple entry points. It additionally has the capability of providing a yes/no response when used for age verification purposes.

Guest ID®

Guest ID® is a software application that speeds up check-in and ID verification at hotels and motels. This product enhances user productivity by automating data entry thus improving accuracy. Guest ID® speeds up the hotel check-in process and is incorporated into legacy Property Management Systems.

ID Check® POS

ID Check® POS is a software application that runs on multiple VeriFone devices, such as the Omni 37xx series. Our software uses both the onboard magnetic stripe reader and an optional external 2-D bar code reader that plugs into an open port on the back of the unit. The terminal has an integrated, high-speed thermal printer. The VeriFone devices are multi-application terminals that allow the ID Check® software to run side by side with credit card processing software as well as other value-added software applications certified by VeriFone. We have been designated as a VeriFone value added partner.

ID Check® BHO

This software product, formerly called the Web Form Filler product, is a Browser Helper Object (“BHO”) for the Microsoft Browser. The BHO allows our customers to seamlessly integrate our core ID Check® technology into their web based applications. The BHO can be programmed through a series of drop down menus to populate driver license data in the fields of specific web pages based on web page URLs and web page field names. The technology also provides the ability to check the encoded formats of ID documents.

ID Check® PC

ID Check® PC is a standalone software solution that is designed to provide the features of ID Check® for Windows based platforms. It allows the user to instantly view data from government issued IDs such as driver licenses and contains features such as recurring entry and age verification.

State Aware Software

State Aware Software provides or restricts information that is electronically scanned from an ID based on the electronic reading laws according to the state in which the ID is scanned. For example, scanning an ID in New Hampshire for law enforcement purposes is allowed, whereas electronically scanning an ID for a mailing list is not allowed. With all the various uses of scanning and verifying an ID, it is important for responsible users to be aware of the different state laws. State Aware Software incorporates each state’s requirements around electronic capture of ID barcode data directly into hosted ID Check software.

Data Collection Devices

Our software products are designed for use with multiple data collection devices, which are commercially available in various compact forms and may contain either one or both of 2-D bar code and magnetic stripe readers. These devices enable our software applications to be used on a variety of commercially available data processing devices, including credit card terminals, PDAs, tablets, laptops, desktops and point-of-sale terminals. Many of these devices contain an electronic serial number (ESN) to prevent unauthorized use of our software.

Instant Credit Application Kiosk Software Applications

These are custom software applications that Intellicheck Mobilisa has developed for a variety of major financial service companies and retail stores. The software installed on multiple kiosk devices provides the customers of the major financial service companies and retail stores with the ability to perform in-store instant credit approval on these devices. The hardware platforms, on which the software applications run, range from stationary devices to handhelds to tablet PCs. The process involves the swiping or scanning of the driver license to verify the encoded format and after verification, the information parsed from the encoded data is populated into the proper fields on the application displayed on the kiosk. The applicant then completes the application by entering the remaining required information that is not encoded on the driver license, such as social security and telephone numbers. The software application then sends the data to the financial service company's backend "decisioning" tool for credit approval. If approved, the applicant is granted instant credit which can then be used to make purchases.

Upgrade Capability

Our ID Check® Products and related databases are constantly updated to stay current with identification formats and new forms of ID.

Government Identification

Defense ID® System

Our Defense ID® System offers law enforcement personnel and military security officers additional information for protecting their facilities. The Defense ID System uses rugged, handheld, mobile devices and desktop visitor/vendor approval workstations to read barcodes, magnetic stripes, RFID (radio frequency identification) and OCR (optical character recognition) codes printed on current forms of identification cards. By scanning and comparing the information contained on the ID card to over 100 databases, Defense ID® can immediately determine if the card has been reported lost or stolen, the individual's identity information matches watch lists or law enforcement databases, or if they are on an authorized roster of previously-cleared personnel.

Law ID®

A mobile app for bona fide law enforcement officers that performs real time queries against State DMV, State Criminal Justice Databases and FBI NCIC (National Crime Information Center) records. Every day officers turn their backs on potentially dangerous persons. Now, the Law Enforcement Officer (“LEO”) can instantly have DOL/DMV, State and Federal search results instantly while maintaining subject visibility. Without the need to return to a vehicle to enter driver license data or to contact dispatch by radio, the app uses the Smart Phone camera to extract the 2D barcode information from driver licenses and other identification documents, instantly returning to the officer query results from DOL/DMV, State and Federal criminal justice databases. These results include DOL/DMV photos, vehicle/weapon registration information and a wealth of additional information that may be critical to officer safety.

PORT ID™

Provides ports and facilities with an innovative, integrated, efficient way to validate ID credentials of individuals requesting entry to secure areas. Our Transportation Worker Identification Credential (TWIC® - TWIC is a federally registered trademark owned by the Department of Homeland Security and use herein does not imply endorsement) reading software and hardware meets all TSA requirements for portable readers and is listed on the TSA’s QTL (Qualified Technology List). The PORT ID Reader is proving to be an instrumental component to port security as we continue to help many U.S. ports of all sizes in further protecting their facilities.

Visitor Center (IM 3000)

The Visitor Center is a component of our Defense ID® system and makes it faster and easier to process visitors and vendors. Using the visitor center system, it pre-populates fields by scanning the government-issued ID, performs a real-time background check utilizing over 100 databases to verify the individual is not on a wanted list and if the individual has been pre-approved to access the facility or building. The Visitor Center can then take photos and prints a visit pass or new local ID card, all in a matter of seconds.

Upgrade Capability

Like our ID Check® products, our Defense ID® products are constantly updated to stay current with identification formats and new forms of ID. In addition, we continuously update the databases related to lost or stolen cards, watch lists and law enforcement database updates, and authorized rosters of cleared personnel. Our Defense ID® Systems are maintained via annual subscriptions that are purchased by our customers.

STRATEGY

Our objective is to be a leading security company providing world class solutions in the identity sector. These solutions include our commercial identity systems focusing on work-flow, productivity enhancement, fraud protection and risk management segments; our government identity systems focusing on access control, vendor validation, and suspect identification. Key elements of our strategy are as follows:

Commercial Systems

Productivity Enhancement. We market our technology as a key productivity enhancement tool. Our proprietary ID Check® software can add functionality to virtually any given software application to automatically populate fields within a given form, when a government-issued photo ID is presented. Our ability to correctly read and authenticate all U.S. jurisdictions, coupled with our proprietary technology, is a key differentiator from our competitors. The automation resulting from the intelligence added to the form dramatically increases throughput and data integrity, and it significantly enhances the customer's experience.

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications with multiple biometric companies: Lenel, AMAG Technology, Inc., in the defense industry; Zebra Technologies hardware manufacturers; and Idemia Identity & Security USA. We are an associate member of AAMVA and a member of AAMVA's Industry Advisory Board. We believe these relationships will broaden our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for document verification and productivity enhancement by continuing to market and support our systems and software. Our sales and marketing departments are organized by geographic area to provide focus and proximity to build solid long-term relationships. Our recent focus has been on SaaS license arrangements in the financial services, retail, and hospitality services industries.

Enter into Additional Licensing Agreements. We intend to continue to license our software for use with a customer's system. We are currently licensing our ID Check® SDK software product for Windows, Windows CE, Windows Mobile and other operating system platforms and intend to similarly continue to license our ID Check® PC software solutions. Our software is intended to be used with a compatible hardware device. We have entered into multiple licensing agreements to date.

Protect Intellectual Property. We intend to protect our intellectual property portfolio to preserve value and obtain favorable settlements where warranted.

Government Identity Systems

Product Enhancement. Due to the success of Defense ID® in the military and government industry sectors, we have enhanced our product line to support other entities such as law enforcement, port security and commercial installations. We continue our ongoing efforts to research and implement the use of new identification cards, additional databases and upgraded equipment form factors to increase the efficiency and performance of the system.

Transportation Worker Identification Credential Program. We were on the first list of ICE (Initial Capability Evaluation) readers and will continue to provide our software on additional hardware platforms to address the unique needs of each port and facility. We have combined our Defense ID® and ® reader applications to provide customers with the benefits of each product in a single device and was the first company to have readers listed on the TSA's QTL (Qualified Technology List).

Strengthen Sales and Marketing Efforts. As the need for access control systems continues to grow, our experienced sales and marketing departments are adjusting to target new sectors. Sales and marketing materials are specially designed to clearly outline the capabilities of the system and how it is valuable to each of these specific sectors. We have sales staff and office locations on the East and West Coasts, which allows a quick response to questions and personalized assistance for each customer based on location.

Additional Access to Multiple Databases. We continue to increase the data source information accessed through our Defense ID[®] system. This is achieved by increasing the capabilities of our internally-developed scraping programs for publicly-available information as well as by negotiating additional data source agreements with various law enforcement and government agencies. In addition to these general databases, we can customize databases for each individual customer based on information provided by the customer.

Our Revenue Sources

We derive our revenue from the following sources:

- Sales of our systems by both our own direct sales force and marketing partners;
- Per transaction or subscription fees (SaaS) from the licensed use of our technology;
- Revenue sharing and marketing arrangements through strategic alliances and partnerships; and
- Sale of software upgrades and extended maintenance programs

Our Target Industry Sectors

Commercial Identity Systems

The use of false identification cards, primarily driver licenses and non-driver identification cards, to engage in commercial fraud, to gain access to unauthorized areas and to gain entry to critical infrastructure is all too common and the problem is growing with each passing day. Given the ease with which identification can be falsified, we believe that simply looking at a driver license is not sufficient to verify identity and determine if such an identification card is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that what they need is a document authentication system that can accurately read the electronically stored information. We target the industry sectors that would most benefit from our systems and software.

We also market our products to opportunities where our ID Check® technology can be used to enhance productivity. We have made significant progress in the sectors for the retail issuance of instant credit. We believe there are financial benefits and compelling business models for customers in this sector to utilize our technology.

Productivity Enhancement

| | |
|--|--|
| Mass merchandisers and retailers | Auto dealerships and rental car agencies |
| Banks and other financial institutions | Casinos for enrollment of guests |
| Credit unions | Hospital patient admissions |
| Credit card issuers | Lodging Industry |
| Check cashing services | Airlines |

Commercial fraud protection

| | |
|--|--|
| Mass merchandisers and retailers | Auto dealerships and rental car agencies |
| Banks and other financial institutions | Casino cage operations |
| Credit unions | Hospitals, medical facilities and health plans |
| Credit card issuers | Lodging Industry |
| Check cashing services | Pharmacies |

Access control

| | |
|---------------------------------------|---------------------------------|
| Airports and airlines | Prisons |
| Departments of Motor Vehicles | Law enforcement agencies |
| Notable buildings | Military establishments |
| Court houses | College campuses |
| Nuclear facilities | Department of Homeland Security |
| Oil refineries and storage facilities | Bus, rail and port facilities |

Age verification

| | |
|----------------------|---------------------------------------|
| Bars and night clubs | Stadiums and arenas |
| Convenience stores | Casinos and gaming establishments |
| Grocery chains | Sellers of sexually explicit material |
| Restaurants | Firearm dealers |
| Cannabis Industry | |

Government Identity Systems

Our Defense ID® system is tailored to locations that validate identification cards as a means of access. Historically, the military sector has been the primary focus, followed closely by sea ports, oil refineries and the law enforcement sector. Military bases, for example, are an ideal location for the use of the Defense ID® system because individual ID cards are checked prior to allowing base access and, in most cases, bases issue visitor/vendor passes to individuals needing access that do not possess a military ID.

Because Defense ID® is customizable, it can be used in many different environments. The information provided via instant access to multiple law enforcement databases proves invaluable to gate officers and law enforcement personnel ensuring the security of a facility. Current targets include:

Military

| | |
|---------------------------------|--------------------|
| Army | Navy |
| Air Force | Marines |
| Coast Guard | Military Academies |
| Military and Veterans Hospitals | Oil Refineries |
| Airports and Seaports | |

Law Enforcement/Government

| | |
|--|---------------------------------|
| FBI | Drug Enforcement Administration |
| State & Local Police | Local Sheriffs |
| Bureau of Alcohol, Tobacco, Firearms, and Explosives | Intelligence Agencies |
| Customs | Department of Transportation |
| Department of Homeland Security | Border Patrol |

MARKETING AND DISTRIBUTION

Commercial Identity Systems

Our objective is to become a leading developer and distributor of document and age verification products. To date, our marketing efforts have been through direct sales by our sales and marketing personnel, through resellers and license agreements. We are marketing our products through direct marketing approaches such as web marketing, a small number of select trade shows and well known public interest and trade associations.

We generate revenues from the licensing of our software and the selling of bundled solutions that contain hardware and software. Depending on the specific needs of our clients, we tailor the right solution for them. Our bundled solutions are sold on a SaaS basis.

Our ID Check® software is available to customers via the cloud (SaaS) and available for Microsoft Windows and Windows Mobile platforms, Android and iOS in addition to devices such as credit card terminals and other operating systems such as Linux. We are marketing our ID Check® technology to the financial institutions, mass merchandisers, government, airlines, airports, high profile buildings or infrastructure, grocery, convenience and pharmacy chains, and casinos.

We have developed a comprehensive marketing plan to build customer awareness and develop brand recognition in our target industry sectors. We promote the advantages and ease of use of our products through:

Endorsements by nationally known public interest groups and trade associations;

Trade publications;

Trade shows;

Web seminars, as well as our own website; and

Various conventions and industry specific seminars.

We intend to continue to develop and market other related software applications.

Government Identity Solutions

We have sector-specific brochures for each product in our product line for both the military, port and law enforcement sectors that the sales force utilizes when demonstrating the Defense ID® system to potential customers. These brochures serve as a quick reference guide outlining the capabilities of our technology. Once customers have a clear understanding of our products, they can use these brochures to discuss their individual needs and ordering requirements.

When dealing with military and government entities, we must comply with applicable procurement regulations.

In addition to sole source awards, we also respond to Requests for Proposal (“RFPs”) and Requests for Qualifications (“RFQs”) when our technological capabilities meet that of the desired system. In many cases, we are the only company that can meet the requirements in the RFP, which can lead to a quick and easy award.

Also, we have all Defense ID® products, as well as individual labor services, listed on GSA Schedule 70. This makes it possible for government entities to make direct purchases of equipment and services for a pre-negotiated price without having to go through the formal RFP/Bid process.

We have our corporate headquarters in Melville, New York to fully support our current and potential customers.

MAJOR CUSTOMERS

Although the composition of our largest customers has changed from year to year, a significant portion of our revenues have been attributable to a limited number of major customers. In 2018, our top ten customers accounted for approximately 52% of total revenues. In 2017, our top ten customers accounted for approximately 57% of total revenues. While we believe that one or more major customers could account for a significant portion of our sales for at least the next two years, we anticipate that our customer base will continue to expand and that in the future we will be less dependent on major customers.

REGULATION

The sale and use of our Identity System products are subject to regulation, such as on data protection and storage, by government authorities. We work on an ongoing basis with our customers to facilitate their compliance with such regulations. We believe we are currently in compliance with applicable United States, state and local laws and regulations relating to the protection of the environment.

COMPETITION

Commercial Identity Systems

We compete in an industry that is intensely competitive and rapidly changing. Unless a device can read, decode and analyze all the information that is legally permitted to be analyzed, which is electronically stored on a driver license, the user may not obtain accurate and reliable confirmation that a driver license is valid and has not been altered or tampered with. We are aware of several companies that are currently offering products that electronically read and calculate age from a driver license. We have tested and compared some of these products to ID Check® and believe that our product is superior in quality and functionality. We believe that units unable to read bar codes are at a significant disadvantage because all states and Canadian provinces currently utilize bar codes to encode their driver licenses, as well as all U.S. military IDs and uniformed services cards.

In the government identity sector, there are several companies, including Idemia USA and HID Global that are currently offering products that compete with the Defense ID® system. The U.S. government also has DBIDS and AIE that compete with our products.

We are also aware that Zebra and Honeywell are offering an embedded driver's license reading solution on a tether scanner. The solutions simply read the barcode as opposed to authenticating.

We have experienced and expect to continue to experience increased competition in the document verification sector. If any of our competitors were to become the industry standard or were to enter or expand relationships with significantly larger companies through mergers, acquisitions or otherwise, our business and operating results could be seriously harmed. In addition, potential competitors could bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products.

MANUFACTURING

We do not manufacture readers or input devices, but use products from several manufacturers. Some of these devices are private labeled and programmed by the supplier to work with our ID Check® technology. Most of our hardware consists of commercial off-the-shelf (“COTS”) products. We rely on a small number of suppliers to provide our COTS products.

Our government identity systems products are created with COTS items that we customize with software and specialized configurations. All products are customized, assembled, and tested in-house and then installed and placed by our employees in the field.

RESEARCH AND DEVELOPMENT

Our research and development (“R&D”) efforts are mainly concentrated in two areas. The most significant effort is concentrated in the identity sector. We modify existing software applications based on customer’s requirements, which are fee based. In addition, we develop new software solutions and make improvements to existing software platforms, which are funded internally. R&D spending during the years ended December 31, 2018 and 2017 was \$2,904,166 and \$1,916,107, respectively.

INTELLECTUAL PROPERTY

We currently hold sixteen (16) U.S. patents, one (1) Canadian patent and one (1) United Kingdom patent. At present, we have six patent applications pending in the U.S. Patent and Trademark Office as well as internationally. These patents cover commercially important aspects of our capabilities relating to the authentication and verification of identification documents, and relating to our Defense ID® System technology. We will continue to pursue patents for all of our new technologies arising from our research and development efforts.

In January 1999, the U.S. Patent and Trademark Office granted us a patent on our ID Check® software technology. In October 2002, we were granted another patent relating to our document authentication and age verification technology. In January 2009, we were granted another patent that is a continuation of our patents relating to our document authentication and age verification technology. Upon our acquisition of the assets of IDentiScan, we also received equitable ownership and sole ownership rights to its intellectual property, including other patents and patent applications relating to age verification technology.

During 2010, we were granted two additional patents. The first patent was for a software key control for mobile devices. It is used to get a registration key for the parser that is based on the unique internal ID of one mobile device. The Mobile Key Manager communicates with the mobile device, reading its ID, and then requests a registration key specific for that ID from Intellicheck Mobilisa's server. This server maintains a database of all customers using IDecode Mobile Parsers, including the number of licenses they have purchased, the latest software version for which they have paid support, and the registration keys and unique device IDs associated with those licenses. The server generates a new registration key unique to the device ID and returns it to the Mobile Key Manager to register that device. In this way, the customer can deploy the IDecode Mobile Parser to only one mobile device for each parser purchased.

The second patent was related to a document comparison system and reinforces the innovative nature of Intellicheck's security solutions involving documents. The technology described in the patent relates to a system and method for comparing information contained in at least two documents. For example, information on at least two different documents can be compared to determine whether the information is the same on each document. For instance, a name contained on an individual's driver's license is automatically compared with a name contained on the individual's airline boarding pass.

In 2011, we were issued another patent. This patent allows for verifying and authenticating the encoded information on driver licenses of all 50 states and other North American driver licenses and allows the information to be electronically transferred in a secure environment to a local or remote jurisdiction for age verification, organ donor, or criminal activity checks critical in fighting both crime and terrorism.

In 2012, we were granted a patent relating to a system and method for comparing information contained in at least two documents, but not limited to just a driver license and passport. This patent compares “like information” on different documents to determine whether the information is the same on each document. As an example, a passport is compared to a boarding pass to determine if “like information” matches, for instance name and birthdate.

We were also granted a patent related to a system that uses environmental information to determine a level of scrutiny that is to be applied to identification information received at a location where user identification is being checked. Depending on the level of scrutiny that is applied and on generated candidate scores, the system will display many potential persons of interest that match the received identification information.

In 2013, we were granted four patents that are continuations of earlier-filed applications we previously filed. One patent is related to a document comparison system that compares information contained in two documents to determine whether the information is substantially identical on each document. An indication is provided as to whether the two documents identify the same entity or do not identify the same entity. The second patent relates to improvements to software key control for mobile devices. The third patent relates to an apparatus for extracting date of birth information from driver’s licenses and displaying a calculated age along with a license background graphic. Finally, the fourth patent is related to a system that uses environmental information to determine a level of scrutiny that is to be applied to identification information received at a location and to display many potential persons of interest that match the received identification information based on the applied level of scrutiny.

In 2014, we were granted one patent that was also a continuation of an earlier-filed application. The patent is related to a document comparison system that compares information contained in two documents to determine whether certain information is substantially identical on each document. The system provides a positive or negative indication as to whether portions of the two documents are substantially identical.

In 2015, we acquired an intellectual property portfolio that includes four patents involving technologies for checking the validity of identification documents using a remote database. Certain patents in this portfolio address the use of biometric information and identification credentials as part of the process to control access to a secured area.

We were also granted two patents in 2015. The first patent is related to a system and method for comparing documents. The second patent is identity matching in response to threat levels.

We were also granted two patents in 2016 in Canada. The first patent is related to a system and method for comparing documents. The second patent is related to identity matching in response to threat levels.

We were granted one patent in 2017 that was also a continuation of an earlier filed application. The patent is related to checking the validity of identification documents using a remote database.

In 2018, we were granted one patent that was also a continuation of an earlier filed application to a document comparison that compares information contained in documents.

We own multiple copyrights in the United States, which are effective in Canada and in other major industrial countries. The copyright protection covers software source codes and supporting graphics relating to the operation of ID Check® and other software products. We also have several trademarks relating to our company, its product names and logos.

In connection with the sales or licensing of our intellectual property, we have entered into an agreement with a former officer, under which we will pay royalties equal to 0.005% of cumulative gross sales for cumulative gross sales of \$2,000,000 to \$52,000,000 and 0.0025% of cumulative gross sales for cumulative gross sales more than \$52,000,000 pertaining to those patents on which this former officer was identified as an inventor. Cumulatively through December 31, 2018 total fees paid under this agreement were approximately \$2,000.

Employees

As of March 21, 2019, we had thirty-four full-time employees. Three are engaged in executive management, nineteen in information technology, nine in sales and marketing and three in administration. All employees are employed “at will.” We believe our relations with our employees are generally positive and we have no collective bargaining agreements with any labor unions.

Item 1A. Risk Factors

RISK FACTORS

Risks Related to Our Business and Industry

We have incurred losses since inception and losses may continue, which could result in a decline in the value of our securities and a loss of your investment.

We incurred net losses of \$3,963,576 and \$6,020,505 for the fiscal years ended December 31, 2018 and 2017, respectively, and our accumulated deficit was \$114,386,401 as of December 31, 2018. Since we expect to incur additional expenditures in line with the sales growth of our business, we may not achieve operating profits in the near future. This could lead to a decline in the value of our securities.

Our proprietary software relies on reference data provided by government and quasi-government agencies. If these governmental and quasi-government agencies were to stop sharing data with us, the utility of our proprietary software would be diminished in those jurisdictions and our business would be damaged.

Currently, the fifty states, ten Canadian provinces and the District of Columbia, in most instances, conform to the guidelines established by certain organizations responsible for implementing industry standards, cooperate with us by providing sample identification cards so that we may modify all our hardware and software products to read and analyze the encoded information found on such jurisdiction's identification cards. If one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions.

Our business strategy exposes us to long sales and implementation cycles for our products.

Our target customers in the commercial fraud protection, access control and age verification industry sectors include large retailers and government agencies, which typically require longer sales and implementation cycles for our products than do our potential customer base solely interested in age verification, such as restaurant, bar and convenience store operators. The longer sales and implementation cycles for larger retail companies continue to have an adverse impact on the timing of realizing our revenues. In addition, budgetary constraints and potential economic slowdowns may also continue to delay purchasing decisions by these prospective customers. These initiatives have

costs associated with them, and we cannot assure you that they ultimately will prove successful, or result in, an increase to our revenues or profitability.

Historically, some of our primary target customers have been government agencies and branches of the U.S. military, both of which require long sales and implementation cycles for products, which may result in a long period of time prior to revenue realization. The loss or significant reduction in government spending could limit our ability to obtain government contracts. These limitations, if significant, could significantly reduce our revenues. We will need to develop additional strategic relationships with large government contractors in order to successfully compete for government contracts. Should we lose or fail to develop these strategic relationships, we may not be able to implement our business strategy.

The industry for our systems and software is evolving and its growth is uncertain.

Demand as well as industry acceptance for recently introduced and existing systems, and software and sales from such systems and software, are subject to a high level of uncertainty and risk. With changing administration in government, changes in government budgets, and slowly evolving government standards on use of identity products, the government sector is slowly developing. The commercial sector can develop faster than the government sector, but it is also subject to a higher level of uncertainty because of potential uncertainty in the continued financial health of our commercial customers, as well as long sales cycles. Our business may suffer if the industry develops more slowly than anticipated and does not sustain industry acceptance.

Failure to manage our operations if they expand could impair our future growth.

If we can expand our operations, particularly through multiple sales to large retailers and government agencies in the document verification industry, the expansion will place significant strain on our management, financial controls, operating systems, personnel and other resources. Our ability to manage future growth, should it occur, will depend upon several factors, including our ability to do the following:

- build and train our sales force;
- establish and maintain relationships with distributors;
- develop customer support systems;
- develop expanded internal management and financial controls adequate to keep pace with growth in personnel and sales, if they occur; and
- manage the use of third-party manufacturers and suppliers.

If we can grow our business but do not manage our growth successfully, we may experience increased operating expenses, loss of customers, distributors or suppliers and declining or slowed growth of revenues.

Failure to protect our proprietary technology may impair our competitive position.

We continue to allocate significant resources to developing new and innovative technologies that are utilized in our products and systems. Because our continued success depends on, to a significant degree, our ability to offer products providing superior functionality and performance over those offered by our competitors, we consider the protection of our technology from unauthorized use to be fundamental to our success. This is done by processes aimed at identifying and seeking appropriate protection for newly-developed intellectual property, including patents, trade secrets, copyrights and trademarks, as well as policies aimed at identifying unauthorized use of such property. These processes include:

- contractual arrangements providing for nondisclosure of proprietary information;
- maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems;
- protecting trade secrets;
- protecting copyrights and trademarks by registration and other appropriate means;
- establishing internal processes for identifying and appropriately protecting new and innovative technologies; and
- establishing practices for identifying unauthorized use of intellectual property.

Litigation can be very costly and divert management's attention. An adverse outcome in any litigation may have a severe negative effect on our financial results. To determine the priority of inventions, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office or oppositions in foreign patent and trademark offices, which could result in substantial cost and limitations on the scope or validity of our patents or trademarks.

Additionally, third parties, including our competitors or licensees, may seek to have our patents reviewed by the Patent Trial and Appeal Board of the United States Patent and Trademark Office in a post grant proceeding, such as post grant review or an inter parties review. Such proceedings, if instituted could cancel our patents or narrow the scope of our patent claims. We cannot predict the effect that such proceedings, if instituted, may have on our business or revenue received from licensing our patents.

In addition, foreign laws treat the protection of proprietary rights differently from laws in the United States. The failure of foreign laws or judicial systems to adequately protect our proprietary rights or intellectual property, including intellectual property developed on our behalf by foreign contractors or subcontractors, may have a material adverse effect on our business, operations and financial results.

If our future products incorporate technologies that infringe the proprietary rights of third parties, and we do not secure licenses from them, we could be liable for substantial damages.

We are not aware that our current products infringe the intellectual property rights of any third parties. We also are not aware of any third party intellectual property rights that may hamper our ability to provide future products and services. However, we recognize that the development of our services or products may require that we acquire intellectual property licenses from third parties to avoid infringement of those parties' intellectual property rights. These licenses may not be available at all or may only be available on terms that are not commercially reasonable. If third parties make infringement claims against us whether or not they are upheld, such claims could:

- consume substantial time and financial resources;
- divert the attention of management from growing our business and managing operations; and
- disrupt product sales and shipments.

If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter into costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product development, sales and shipments, and our revenues may decline substantially. Additionally, we may not be able to achieve the minimum necessary growth for our continued success.

Failure to attract and retain management and other personnel may damage our operations and financial results and cause our stock price to decline.

We depend, to a significant degree, on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing or additional personnel could disrupt or otherwise harm our operations and financial results. We do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could cause our stock price to decline.

Our share price may be volatile and could decline substantially

The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to March 21, 2019, the closing price of our common stock has varied

from a high of \$140.00 to a low of \$0.82 per share, as reported on the NYSE MKT. Many factors may cause the market price for our common stock to decline, including:

shortfalls in revenues, cash flows or continued losses from operations;
delays in development or roll-out of any of our products;
announcements by one or more competitors of new product acquisitions or technological innovations; and
unfavorable outcomes from outstanding litigation.

In addition, the stock market experiences extreme fluctuations in price and volume that particularly affect the market price of shares of technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected companies. Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts and our stock price could decline as a result. Declines in our stock price for any reason, as well as broad-based market fluctuations or fluctuations related to our financial results or other developments, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de-listing of our common stock.

We incur significant accounting and other control costs that impact our financial condition.

As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned, so their accounting and control costs could create a competitive advantage over us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, our costs associated with regulatory compliance will rise as a percentage of sales.

Securing government contracts typically involves a lengthy competitive bidding process. Often, unsuccessful bidders have the ability to challenge contract awards. Such challenges may increase costs, result in delays and risk the loss of the contract by the winning bidder. Protests or other delays related to material government contracts that may be awarded to us could result in revenue volatility. State and local government agency contracts may depend on the availability of matching funds from federal, state or local entities. State and local government agencies are subject to political, budgetary, purchasing and delivery constraints that may result in irregular revenue and operating results. Revenue volatility makes management of our business difficult. Outright loss of any material government contract through the protest process or otherwise, could significantly reduce our revenues.

We could be adversely affected by a negative audit by the U.S. government.

We, like other government contractors, are subject to various routine audits, reviews and investigations by U.S. government agencies, including the Defense Contract Audit Agency and various agency inspectors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. government.

Long lead times for the components used in certain products creates uncertainty in our supply chain and may prevent us from making required deliveries to our customers on time.

We rely exclusively on commercial off-the-shelf technology in manufacturing our products. The lead-time for ordering certain components used in our products and for the production of products can be lengthy. As a result, we must, from time to time, order products based on forecasted demand. If demand for products lags significantly behind forecasts, we may purchase more product than we can sell. Conversely, if demand exceeds forecasts, we may not have enough products to meet our obligations to our customers.

We obtain certain hardware and services, as well as some software applications, from a limited group of suppliers, and our reliance on these suppliers involves significant risks, including reduced control over quality and delivery schedules.

Any financial instability of our suppliers could result in having to find new suppliers. We may experience significant delays in manufacturing and deliveries of products and services to customers if we lose our sources or if supplies and services delivered from these sources are delayed. As a result, we may be required to incur additional development, manufacturing and other costs to establish alternative supply sources. It may take several months to locate alternative suppliers, if required. We cannot predict whether we will be able to obtain replacement hardware within the required time frames at affordable costs, or at all. Any delays resulting from suppliers failing to deliver hardware or delays in obtaining alternative hardware, in sufficient quantities and of sufficient quality, or any significant increase in the cost of hardware from existing or alternative suppliers could result in delays on the shipment of product which, in turn, could result in the loss of customers we may not be able to successfully complete.

Our Defense ID[®] system relies on access to databases run by various government agencies. If these governmental agencies were to stop sharing data with us, the utility of the Defense ID system would be diminished and business would be damaged.

Currently, our Defense ID[®] system accesses over 100 separate databases run by various government and law enforcement agencies. We cannot be assured that each of these agencies will continue to cooperate with us. In the event that one or more of these agencies does not continue to provide access to these databases, the utility of the Defense ID[®] system may be diminished and, as a result, our sales could suffer.

Our Defense ID® system requires permission from each branch of the U.S. military in the form of an Authority to Operate (ATO). If an existing ATO is revoked, we would risk losing our ability to install our Defense ID® system at military bases.

It is our current understanding that our Defense ID® system requires authority to operate at each Defense Department installation. There are, however, several views within the Defense Department pertaining to authorizations and accreditations required for information technology systems. We continue to work with the Defense Department to clarify these requirements that generate uncertainty for Defense Department contractors.

Authority to operate is granted to each installation and requires the installation to expend resources in the authorization process. The time required for this process can be lengthy, given resource availability.

We cannot be assured that Defense Department installations will have the resources necessary to pursue their respective authorities to operate, or that the authority to operate can be granted in a timely manner. The results of this may include loss or delay of projected Defense ID sales.

Security breaches and other disruptions could potentially compromise our information and expose us to liability, which would be harmful to our business.

In the ordinary course of our business, we collect and store sensitive data, including intellectual property, our proprietary business information and that of our customers, and personally identifiable information of our customers, their customers our employees, in our data centers and on our networks. The secure processing, maintenance and transmission, when applicable, of this information is critical to our operations and business strategy. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. Any such breach could compromise our networks and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, potential liability under laws that protect the privacy of personal information, and regulatory penalties. This in turn could disrupt our operations and the services we provide to customers, damage our reputation, and potentially cause a loss of confidence in our products and service offerings, which could adversely affect our business and competitive position.

Our Defense ID® system manages private personal information and information related to sensitive government functions and a breach of the security systems protecting such information may result in a loss of suppliers or customers or result in litigation.

The protective security measures designed to protect sensitive information and contained in our products may not prevent all security breaches. Failure to prevent security breaches may disrupt our business, damage our reputation and expose us to litigation and liability. A party who is able to circumvent protective security measures used in these systems could misappropriate sensitive information or cause interruptions or otherwise damage our products, services and reputation as well as the property and privacy of customers. If unintended parties obtain sensitive data and information, or create bugs or viruses or otherwise sabotage the functionality of our products, we may receive negative publicity, incur liability to our customers or lose the confidence of our customers, any of which may cause the termination or modification of contracts. Further, our existing insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

In addition, we may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by the occurrence of any such breaches. However, protective or remedial measures may not be available at a reasonable price or at all, or may not be entirely effective if commenced.

Future government regulation restricting the capture of information electronically stored on identification cards could adversely affect our business.

The Defense ID[®] system is designed to read, verify and capture information from identification cards. Currently, some jurisdictions have restrictions on what can be done with this information. Because issues of personal privacy continue to be a major topic of public policy debate, it is possible that, in the future, these or other jurisdictions may introduce similar or additional restrictions on capturing this information. Therefore, the implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected industry sectors to become impractical and reduce our revenues and potential revenues.

We are subject to risks associated with product failure and technological flaws.

Our products are complex and may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is possible that errors will be found in a new product or enhancement after commercial shipments have commenced. The occurrence of product defects or errors could result in negative publicity, delays in product introduction and the diversion of resources to remedy defects and loss of or delay in industry acceptance or claims by customers against us and could cause us to incur additional costs, any one of which could adversely affect our business. Because of the risk of undetected error, we may be compelled to accept liability provisions that vary from our preferred contracting model in certain critical transactions. There is a risk that in certain contracts and circumstances we may not be successful in adequately minimizing product and related liabilities or that the protections negotiated will not ultimately be deemed enforceable.

We carry product liability insurance, but existing coverage may not be adequate to cover potential claims. The failure of our products to perform as promised could result in increased costs, lower margins, liquidated damage payment obligations and harm to our reputation.

We may not be able to keep up with rapid technological change.

The sectors for all our products are characterized by rapid technological advancements. Significant technological change could render existing technology obsolete. If we are unable to successfully respond to these developments, or do not respond in a cost-effective manner, our business, financial condition and results of operations will be materially adversely affected.

Future capital requirements may require incurring debt or dilution of existing stockholders.

Acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital or incur debt. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted.

Because we do not intend to pay dividends on our Common Stock, stockholders will benefit from an investment in our stock only if it appreciates in value.

We have never declared or paid any cash dividends on our shares of stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our Board of Directors and will depend on factors the Board of Directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of our credit facilities and other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our stock. There is no guarantee that our stock will appreciate in value.

Our percentage of revenues and customer concentration is significant.

Revenues from our ten largest customers accounted for 52% of total net revenues in 2018 and 57% of total net revenues in 2017. Two customers accounted for 30% and 26% of revenues in 2018 and 2017, respectively. Our loss of one or more significant customers could have a significant adverse impact on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters is currently located in Melville, New York, where we occupy approximately 5,400 square feet of office space pursuant to a lease that expires on March 31, 2021. Many administrative and technical personnel for all product divisions are based at this location, with a certain number of individuals operating out of home offices throughout the country. We believe that our existing facility is adequate to meet current requirements and that additional or substitute space will be available as needed to accommodate any expansion of operations.

Item 3. Legal Proceedings

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

Item 4. Mine Safety Disclosures

None

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is traded on the NYSE MKT Stock Exchange under the symbol “IDN.” The following table indicates high and low sales prices for the periods indicated.

| | Low | High |
|----------------|---------|---------|
| 2017 | | |
| First quarter | \$ 1.98 | \$ 3.10 |
| Second quarter | \$ 2.78 | \$ 4.20 |
| Third quarter | \$ 2.42 | \$ 3.84 |
| Fourth quarter | \$ 2.11 | \$ 3.05 |
| 2018 | | |
| First quarter | \$ 1.60 | \$ 2.87 |
| Second quarter | \$ 1.74 | \$ 2.36 |
| Third quarter | \$ 1.91 | \$ 2.75 |
| Fourth quarter | \$ 1.96 | \$ 2.63 |
| 2019 | | |
| First quarter* | \$ 2.10 | \$ 2.76 |

* Portion of first fiscal quarter through March 20, 2019.

(b) As of March 20, 2019, there were 47 shareholders of record of our common stock.

(c) No cash dividends or other cash distributions made by us during the fiscal year ended December 31, 2018. Future dividend policy will be determined by our Board of Directors based on our earnings, financial condition, capital requirements and other then existing conditions. It is anticipated that cash dividends will not be paid to the holders of our common stock in the foreseeable future.

(d) Securities Authorized for Issuance Under Equity Compensation Plans

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The following table provides information as of December 31, 2018, with respect to the shares of our common stock that may be issued under our existing equity compensation plans.

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|---|---|---|
| Equity compensation plans approved by security holders ⁽¹⁾ | 1,072,332 | \$ 1.44 | 746,103 |
| Equity compensation plans not approved by security holders | | \$ N/A | N/A |
| Total | 1,072,332 | \$ 1.44 | 746,103 |

(1) Represents 1,020,534 options under the 2015 Omnibus Incentive Plan and 51,798 options under the 2006 Equity Incentive Plan.

(e) Recent Sales of Unregistered Securities

None.

(f) Repurchases of Equity Securities

There were no shares purchased during 2018.

(g) Reverse Stock Split

Effective on August 12, 2014 and commencing with the opening of trading on August 13, 2014, we effected a reverse stock split of our issued and outstanding common stock, \$0.001 par value per share, at a ratio of one-for-eight, with each eight (8) issued and outstanding shares of the common stock automatically combined and converted into one (1) issued and outstanding share of the common stock. The reverse stock split was approved by stockholders holding a majority of the outstanding voting power at a special meeting of stockholders held on August 12, 2014.

Item 6. Selected Financial Data

The following selected financial data presented under the captions “Statement of Operations Data” and “Balance Sheet Data” as of the end of each of the five years ended December 31, 2018, are derived from our financial statements. The selected financial data should be read in conjunction with the financial statements as of December 31, 2018 and 2017 and for each of the two years in the period ended December 31, 2018, the accompanying notes and the report of independent registered public accounting firms thereon, which are included elsewhere in this Form 10-K. Our consolidated financial statements include our accounts and our wholly owned subsidiaries, Mobilisa and Positive Access.

| | Years Ended December 31, | | | | |
|-------------------------------|---------------------------------------|---------|---------|---------|---------|
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | (In thousands, except per share data) | | | | |
| Statement of Operations Data: | | | | | |
| Revenues | \$6,613 | \$7,015 | \$3,839 | \$3,598 | \$4,433 |
| Loss from operations | (7,645) | (5,480) | (5,750) | (6,080) | (4,093) |
| Net loss | (7,644) | (5,334) | (5,735) | (6,021) | (3,964) |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| Net loss per common share | | | | | |
| Basic | (1.59) | (0.55) | (0.58) | (0.48) | (0.26) |
| Diluted | (1.59) | (0.55) | (0.58) | (0.48) | (0.26) |
| Common shares used in computing per share amounts | | | | | |
| Basic | 4,801 | 9,658 | 9,915 | 12,429 | 15,542 |
| Diluted | 4,801 | 9,658 | 9,915 | 12,429 | 15,542 |

| | | | | | |
|----------------------|--------------------|---------|---------|---------|---------|
| | As of December 31, | | | | |
| | 2014 | 2015 | 2016 | 2017 | 2018 |
| | (In thousands) | | | | |
| Balance sheet data: | | | | | |
| Cash | \$2,966 | \$5,953 | \$3,092 | \$8,010 | \$4,376 |
| Working capital | 1,880 | 5,659 | 2,471 | 7,340 | 4,244 |
| Total assets | 15,814 | 18,473 | 14,534 | 17,882 | 14,461 |
| Total liabilities | 2,666 | 2,146 | 1,598 | 1,873 | 1,541 |
| Stockholders' equity | 13,148 | 16,326 | 12,935 | 16,009 | 12,920 |

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a prominent technology company that is engaged in developing, integrating and marketing threat identification and identity authentication solutions to address challenges that include retail fraud prevention, law enforcement threat identification, and mobile and handheld access control and security for the government, military and commercial markets. Intellicheck’s products include Retail ID®, a solution for preventing fraud in the retail industry; Age ID®, a smartphone or tablet-based solution for preventing sale of age-restricted products to minors; Law ID®, a smartphone-based solution used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities.

Critical Accounting Policies and the Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment consideration and valuation of goodwill and intangible assets, deferred tax valuation allowances, allowance for doubtful accounts, revenue allocation of multi-element arrangements and the fair value of stock options granted under our stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management’s judgments and estimates. These significant accounting policies relate to revenue recognition, stock based compensation, deferred taxes, goodwill and intangible asset valuation and impairment, and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

Valuation of goodwill and other long-lived assets

Our long-lived assets include property and equipment, goodwill and intangible assets. As of December 31, 2018, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and amortization and impairments, were \$264,583, \$8,101,661 and \$306,575, respectively. As of December 31, 2017, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and

amortization and impairments, were \$211,602, \$8,101,661 and \$463,578, respectively.

We depreciate property and equipment and amortize intangible assets that have finite lives over their estimated useful lives. For purposes of determining whether there are any impairment losses, as further discussed below, management evaluates the carrying amounts of identifiable long-lived tangible and intangible assets, including their estimated useful lives, when indicators of impairment are present as more fully described below. Based on our review of the carrying amounts of the long-lived tangible and intangible assets with finite lives, we may also determine that shorter estimated useful lives are appropriate. In that event, we record depreciation and amortization over shorter future periods, which would reduce our earnings.

Goodwill

The excess of the purchase consideration over the fair value of the assets of the acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. We had goodwill of \$8,101,661 as of December 31, 2018 and 2017. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2018 and 2017, we performed our annual impairment test of goodwill in the fourth quarter. Under authoritative guidance, we can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price. We performed the first step of the goodwill impairment test in order to identify potential impairment by comparing our fair value of the Company to our carrying amount, including goodwill. The fair value was determined using the weighting of certain valuation techniques, including both income and market approaches which include a discounted cash flow analysis, an estimation of an implied control premium, in addition to our market capitalization on the measurement date. The implied control premium selected was developed based on certain observable market data of comparable companies. The market capitalization is sensitive to the volatility of our stock price. Although we believe that the factors considered in the impairment analysis are reasonable, changes in any one of the assumptions used could have produced a different result which may have led to an impairment charge. Any future impairment loss could have a material adverse effect on our long-term assets and operating expenses in the period in which impairment is determined to exist.

For the years ended December 31, 2018 and 2017, we determined that the fair value was more than our carrying amount and therefore the second step of the goodwill impairment test was not required.

Intangible Assets

Intangible assets include trade names, patents and non-contractual customer relationships as described more fully in Note 5. We use the straight-line method to amortize these assets over their estimated useful lives. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with Accounting Standards Codification (“ASC”) Topic 360. To determine recoverability of its long-lived assets, we evaluate the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

As a result of a projected loss of revenue from certain customers moving to another platform along with a shift in our marketing strategy for 2018, we performed a quantitative impairment test as of December 31, 2017 for the patents, tradenames and customer relationships acquired in the Mobilisa acquisition. We utilized the income approach to test our patent and tradenames, specifically the Relief-from-Royalty method, which assumes that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. As a result of the analysis, \$250,582 and \$287,928, respectively, of impairment was recorded due to the decline in the valuation of tradenames and patents. We utilized the income approach to test our customer relationships, specifically the Multi-Period Excess Earnings Method, which estimates the cash flows attributable to the customer relationships, after considering the return associated with other contributing assets. As a result of the analysis, \$836,912 of impairment was recorded due to the decline in the valuation of the customer relationships. Application of the impairment test requires judgement, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. These

impairments, totaling \$1,375,422, are recorded as Impairment of Intangible Assets on our Consolidated Statements of Operations. No impairments were recognized during the year ended December 31, 2018.

Revenue Recognition and Deferred Revenue

Effective January 1, 2018, we adopted Financial Accounting Standards Board (“FASB”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). In accordance with ASC 606, our analysis indicated that there was no change to how we record revenue and that the standard only impacted enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations and the related judgments and estimates necessary to apply the new standard.

ASC 606 was applied using the modified retrospective method. There was no cumulative effect of the initial application to be recognized as an adjustment to opening retained earnings at January 1, 2018. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, *Revenue Recognition*.

The majority of license fees and services revenue are generated from a combination of fixed-price and per-scan contracts. Under the per-scan revenue model, customers are charged a fee each time the customer scans an identity document, such as a driver's license, with our software. Under the fixed-price revenue model customers are charged a fixed monthly fee either per device or physical business location to access our software. In certain instances, customization services are determined to be essential to the functionality of the delivered software. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services. We measure revenue based on the consideration specified in a customer arrangement, and revenue is recognized when the performance obligations in an arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Customers typically receive the benefit of our services as they are performed. Substantially all customer contracts provide that we are compensated for services performed to date.

Invoicing is based on schedules established in customer contracts. Payment terms are generally established at 30 days from the invoice date. Product returns are recorded as a reduction to revenue.

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Furthermore, we recognize revenue when we satisfies a performance obligation by transferring control over a product or service to a customer.

Stock-Based Compensation

We account for the issuance of equity awards to employees in accordance with ASC Topic 718 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. This pronouncement establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for

the year in which those temporary differences are expected to be recovered or settled. We have recorded a full valuation allowance for our net deferred tax assets as of December 31, 2018 and 2017, due to the uncertainty of the realizability of those assets.

Commitments and Contingencies

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

The above listing is not intended to be a comprehensive list of all our accounting policies. In many cases, the accounting treatment of a transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Results of Operations (All figures were rounded to the nearest \$1,000)

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2018

TO THE YEAR ENDED DECEMBER 31, 2017

REVENUES. Revenues for the year ended December 31, 2018 increased 23% to \$4,433,000 compared to \$3,598,000 for the year ended December 31, 2017. The increase in revenues in 2018 is a primarily the result of higher commercial revenues offset by a decrease in Defense ID[®] revenues. Software as a Service (“SaaS”) revenue, which consists of software licensed on a subscription basis, increased \$1,037,000 or 63% to \$2,696,000 for the year ended December 31, 2018 compared to \$1,659,000 for the year ended December 31, 2017.

GROSS PROFIT. Gross profit increased by \$970,000 to \$4,047,000 for the year ended December 31, 2018 from \$3,076,000 in the year ended December 31, 2017. Our gross profit, as a percentage of revenues, was 91% and 85% in 2018 and 2017, respectively. The increase in percentage in 2018 is due to higher revenues on our SaaS model and product mix. As discussed previously, we believe our margins will normalize in the 85% to 90% range.

OPERATING EXPENSES. Operating expenses, which consist of selling, general and administrative expenses, research and development expenses and an impairment charge on our intangible assets, decreased by \$1,017,000 or 11% to \$8,140,000 for the year ended December 31, 2018 from \$9,157,000 for the year ended December 31, 2017. Selling, general and administrative expenses decreased 11% to \$5,236,000 for the year ended December 31, 2018 from \$5,865,000 for the year ended December 31, 2017, as a result of the impact of severance costs in the prior year, reductions in legal fees, facility expenses and lower stock-based compensation costs offset by increases in sales personnel and expanded marketing efforts. Research and development expenses increased 52% to \$2,904,000 for the year ended December 31, 2018 from \$1,916,000 for the year ended December 31, 2017, due to increased headcount for development personnel and accelerated research and development efforts. We recognized an impairment charge on our intangible assets of \$1,375,000 for the year ended December 31, 2017 which is fully described in Critical Accounting Policies and the Use of Estimates.

INTEREST AND OTHER INCOME. Interest and other income was \$130,000 for the year ended December 31, 2018 as compared to \$60,000 during the year ended December 31, 2017.

INCOME TAXES. We have incurred net losses to date; therefore, we have paid nominal income taxes.

NET LOSS. As a result of the factors noted above, we incurred a net loss of \$3,964,000 for the year ended December 31, 2018 as compared to a net loss of \$6,021,000 for the year ended December 31, 2017.

Liquidity and Capital Resources (All figures were rounded to the nearest \$1,000)

As of December 31, 2018, we had cash of \$4,376,000, working capital (defined as current assets minus current liabilities) of \$4,244,000, total assets of \$14,461,000 and stockholders' equity of \$12,920,000.

For the year ended December 31, 2018, our cash decreased by \$3,634,000. Cash used in operating activities was \$4,221,000 for the year ended December 31, 2018 as compared to cash used in operating activities of \$3,745,000 for the year ended December 31, 2017. We used cash of \$101,000 in investing activities for the year ended December 31, 2018 compared to cash generated from investing activities of \$5,000 for the year ended December 31, 2017. Cash generated in financing activities was \$688,000 for the year ended December 31, 2018 as compared to \$8,658,000 for the year ended December 31, 2017 as a result of the capital raise for the year ended December 31, 2017.

On August 4, 2017, we completed a public offering of 4,168,750 shares of its common stock, offered to the public at \$2.25 per share. Net proceeds from this offering were approximately \$8,670,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs totaling approximately \$157,000 were recorded as a reduction to the net proceeds on the consolidated statements of stockholders' equity.

During 2018 we had a revolving credit facility with Northwest Bank ("Northwest") that allows for borrowings to the lesser of (i) \$2,000,000 or (ii) 95% of the balance in our money market account less \$250,000. The borrowings are secured by our existing deposit and money market accounts with Northwest. The facility bears interest at a rate consistent with Northwest's money market account (1.51% at December 31, 2018) plus 3%. Interest is payable monthly and the principal is due upon maturity on May 22, 2019. As of December 31, 2018, there were no amounts outstanding under this facility and unused availability under this facility was \$2,000,000.

On January 10, 2019 we terminated the above facility with Northwest and on February 6, 2019 we entered into a similar facility with Citibank that allows borrowings up to \$2,000,000 and are secured by collateralized accounts. The facility bears interest at a rate of Citibank's Base Rate minus 2%. Interest is payable monthly. As of March 21, 2019, there were no amounts outstanding under this facility and unused availability under this facility was \$2,000,000.

We currently anticipate that our available cash, as well as cash from the previously mentioned stock offerings, and expected cash from operations and availability under the revolving credit agreement, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months.

We keep the option open to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies. There can be no assurance that we will be able to secure the additional funds when needed or obtain such on terms satisfactory to us, if at all.

We have filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"), which became effective July 19, 2010. Under the shelf registration statement, we may offer and sell, from time to time in the future in one or more public offerings, our common stock, preferred stock, warrants, and units. The aggregate initial offering price of all securities sold by us will not exceed \$25,000,000, and, pursuant to SEC rules, we may only sell up to one-third of the market cap held by non-affiliate stockholders in any 12-month period. We renewed this registration statement with the SEC on July 31, 2013 and it was declared effective August 6, 2013. We renewed this registration statement with the SEC on October 21, 2016 and it was declared effective November 4, 2016.

The specific terms of any future offering, including the prices and use of proceeds, will be determined at the time of any such offering and will be described in detail in a prospectus supplement which will be filed with the SEC at the time of the offering.

The shelf registration statement is designed to give us the flexibility to access additional capital at some point in the future when market conditions are appropriate.

We are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

Adjusted EBITDA

We use Adjusted EBITDA as a non-GAAP financial performance measurement. Adjusted EBITDA is calculated by adding back to net loss interest and other income, income taxes, impairments of long-lived assets and goodwill, depreciation, amortization and stock-based compensation expense. Adjusted EBITDA is provided to investors to supplement the results of operations reported in accordance with GAAP. Management believes that Adjusted EBITDA provides an additional tool for investors to use in comparing our financial results with other companies that also use Adjusted EBITDA in their communications to investors. By excluding non-cash charges such as impairments of long-lived assets and goodwill, amortization, depreciation and stock-based compensation, as well as non-operating charges for interest and income taxes, investors can evaluate our operations and can compare its results on a more consistent basis to the results of other companies. In addition, adjusted EBITDA is one of the primary measures management uses to monitor and evaluate financial and operating results.

We consider Adjusted EBITDA to be an important indicator of our operational strength and performance of our business and a useful measure of our historical operating trends. However, there are significant limitations to the use of Adjusted EBITDA since it excludes interest income, impairments of long lived assets and goodwill, stock based compensation expense, all of which impact our profitability, as well as depreciation and amortization related to the use of long term assets which benefit multiple periods. We believe that these limitations are compensated by providing Adjusted EBITDA only with GAAP net loss and clearly identifying the difference between the two measures. Consequently, Adjusted EBITDA should not be considered in isolation or as a substitute for net loss presented in accordance with GAAP. Adjusted EBITDA as defined us may not be comparable with similarly named measures provided by other entities.

A reconciliation of GAAP net loss to Adjusted EBITDA follows:

| | Year Ended December 31, | |
|----------------------------------|-------------------------|---------------|
| | 2018 | 2017 |
| Net loss | \$(3,963,576) | \$(6,020,505) |
| Reconciling items: | | |
| Interest and other | (129,923) | (59,841) |
| Depreciation and amortization | 245,548 | 412,351 |
| Stock-based compensation expense | 186,707 | 435,679 |
| Impairment of intangible assets | - | 1,375,422 |
| Adjusted EBITDA | \$(3,661,244) | \$(3,856,894) |

Net Operating Loss Carry Forwards

Our available net operating loss (“NOL”) at December 31, 2018 was approximately \$15 million. The federal and state NOLs are available to offset future taxable income and expire from 2019 through 2038 if not utilized.

Contractual Obligations

Below is a table, which presents our contractual obligations and commitments as of December 31, 2018:

| | Payments Due by Period | | | | |
|-------------------------------|------------------------|---------------------|-----------|-----------|----------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| Operating Leases | \$290,939 | \$127,117 | \$163,822 | \$- | \$- |
| Total Contractual Obligations | \$290,939 | \$127,117 | \$163,822 | \$- | \$- |

Recently Issued Accounting Pronouncements

Except as discussed below, we do not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on our financial statements.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing GAAP. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework and additional quantitative disclosures regarding contract balances and remaining performance obligations. ASU No. 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

On January 1, 2018, we adopted ASC 606 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

In August 2018, the Securities and Exchange Commission (“SEC”) adopted the final rule amending certain disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded. In addition, the amendments expand the disclosure requirements on the analysis of stockholders’ equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders’ equity presented in the balance sheet must be provided in a note or separate statement. The rule was effective on November 5, 2018 and will be effective for the quarter that begins after the effective date. Since we include a year to date statement of stockholders’ equity in our interim financial statement filings, the adoption of this guidance will result in the inclusion of a quarter to date statement of stockholders’ equity in its June and September interim financial statement filings and the corresponding prior periods statement of stockholders’ equity for all periods presented.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting* (“ASU 2017-09”) which clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. ASU 2017-09 will reduce diversity in practice and result in fewer changes to the terms of an award being accounted for as modifications. Under ASU 2017-09, an entity will not apply modification accounting to a share-based payment award if the award’s fair value, vesting conditions and classification as an equity or liability instrument are the same immediately before and after the change. On January 1, 2018, we adopted ASU 2017-09 prospectively to awards after this adoption date and did not have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Accounting for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 removes the requirement to perform a hypothetical purchase price allocation to measure goodwill impairment. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. ASU 2017-04 is effective for annual periods and interim periods within those annual periods beginning after December 15, 2019, and early adoption is permitted. We are in the process of evaluating the impact of this standard on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* to measure credit losses on financial instruments, including trade receivables. The guidance eliminates the probable initial recognition threshold that was previously required prior to recognizing a credit loss on financial instruments. The credit loss estimate can now reflect an entity’s current estimate of all future expected credit losses. Under the previous guidance, an entity only considered past events and current conditions. The guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The adoption of certain amendments of this guidance must be applied on a modified retrospective basis and the adoption of the remaining amendments must be applied on a prospective basis.

We are in the process of evaluating the impact of this standard on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (“ASU 2016-02”) which provides guidance on accounting for leases. The guidance requires lessees to recognize assets and liabilities related to long-term leases on the balance sheet and expands disclosure requirements regarding leasing arrangements. In July 2018, the FASB issued additional guidance, which offers a transition option to entities adopting the new lease standards. Under the transition option, entities can elect to apply the new guidance using a modified retrospective approach at the beginning of the year in which the new lease standard is adopted, rather than to the earliest comparative period presented in their financial statements. The guidance is effective for reporting periods beginning after December 15, 2018 and early adoption is permitted. The guidance must be adopted on a modified retrospective basis and provides for certain practical expedients. We adopted ASU 2016-02 effective January 1, 2019 and elected the optional transitional method to apply this standard as of this effective date and therefore, we will not apply this standard to the comparative periods presented in our consolidated financial statements. The impact of adoption will be the recognition of a right-to-use asset and corresponding liability on our consolidated financial statements in the amount of approximately \$266,000 and will not have a significant impact on our consolidated statement of operations.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Forward Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, loss from operations and cash flow. Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance in connection with any discussion of future operating or financial performance identify forward-looking statements. 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 is under 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial instruments, which subject us to concentrations of credit risk, consist primarily of cash and cash equivalents. We maintain cash between three financial institutions. The marketable securities and short-term investments are invested in money market funds and bank certificates of deposit. We perform periodic evaluations of the relative credit standing of these institutions.

Item 8. Financial Statements and Supplementary Data

Our financial statements and supplementary data are attached hereto beginning on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There have been no changes in or disagreements with our principal independent registered public accounting firm for the two-year period ended December 31, 2018.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. As of December 31, 2018, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15I, were effective.

Our disclosure controls and procedures have been formulated to ensure (i) that information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 were recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) that the information required to be disclosed by us is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Annual Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) for the Company. Management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2018 (the end of our fiscal year), based on the framework and criteria established in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference from our 2019 definitive Proxy Statement (which will be filed with the SEC within 120 days after December 31, 2018 in connection with the solicitation of proxies for the Company’s 2019 annual meeting of stockholders) (“2019 Proxy Statement”) under the captions “Proposal 1 – Election of Directors,” “Other Information – Executive Officers,” and “Beneficial Ownership Reporting Compliance under Section 16(a) of the Exchange Act.”

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from our 2019 Proxy Statement under the captions “Executive Compensation” and “Director Compensation.”

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference from our 2019 Proxy Statement under the captions “Other Information—Security Ownership of Certain Beneficial Owners and Management” and “Other Information – Equity Compensation Plan Information.”

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference from our 2019 Proxy Statement under the captions “Other Information – Related Party Transactions Overview,” “Other Information – Certain Transactions with Related Persons” and “Director Attributes and Independence.”

Item 14. Principal Accounting Fees and Services

The information required by this Item is incorporated herein by reference from our 2019 Proxy Statement under the caption “Proposal 2 – Ratification of the Selection of Independent Auditors.”

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Consolidated Balance Sheets as of December 31, 2018 and 2017

Consolidated Statements of Operations for the years ended December 31, 2018 and 2017

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018 and 2017

Consolidated Statements of Cash Flows for the years ended December 31, 2018 and 2017

(b) Exhibits

| Exhibit No. | Description |
|-------------|--|
| 3.1 | Certificate of Incorporation of the Company (1) |
| 3.2 | <u>Amendment to the Certificate of Incorporation of the Company (11)</u> |
| 3.3 | <u>Certificate of Amendment to the Certificate of Incorporation of the Company (8)</u> |
| 3.4 | <u>Amended and Restated By-laws of the Company (12)</u> |
| 4.1 | <u>Specimen Stock Certificate (7)</u> |
| 10.1 | <u>Agreement of Lease between the Company and 535 Realty Management Corp., dated as of December 27, 2017</u> |
| 10.2 | 1998 Stock Option Plan (1) * |
| 10.3 | 1999 Stock Option Plan (1) * |
| 10.4 | <u>2001 Stock Option Plan (2) *</u> |
| 10.5 | <u>2003 Stock Option Plan (3) *</u> |
| 10.6 | <u>2006 Equity Incentive Plan (5) *</u> |
| 10.7 | <u>2015 Omnibus Incentive Plan (13) *</u> |
| 10.8 | <u>Bill Roof Chief Executive Officer Employment Agreement (9)</u> |
| 10.9 | <u>Bill White Severance Agreement (9)</u> |
| 10.10 | <u>Bill Roof Separation and Consulting Agreement dated November 2, 2017*</u> |
| 10.11 | <u>Bryan Lewis' Employment Agreement dated February 1, 2018 *, **</u> |
| 14.1 | <u>Code of Business Conduct and Ethics (6)</u> |

| | |
|---------|--|
| 21 | <u>List of Subsidiaries (7)</u> |
| 23.1 | <u>Consent of EisnerAmper LLP **</u> |
| 31.1 | <u>Certification of CEO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **</u> |
| 31.2 | <u>Certification of CFO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **</u> |
| 32 | <u>Certification of CEO and CFO pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **</u> |
| 101.INS | XBRL Instance Document ** |
| 101.SCH | XBRL Taxonomy Extension Schema ** |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase ** |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase ** |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase ** |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase ** |

* Denotes a management contract or compensatory plan, contract or arrangement.

** Filed herewith.

- (1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September 24, 1999.
- (2) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.
- (3) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed June 13, 2003.
- (4) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed August 10, 2010.
- (5) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 25, 2014.
- (6) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 30, 2004.
- (7) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 11, 2010.
- (8) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 13, 2014.
- (9) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed November 4, 2014.
- (10) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 20, 2014.
- (11) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 28, 2009.
- (12) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.
- (13) Incorporated by reference to the Registrant's Proxy Statement on Schedule 14A filed April 9, 2015.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 21, 2019 INTELLICHECK, INC.

By: */s/ Bryan Lewis*
Bryan Lewis
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

INTELLICHECK, INC.

Date: March 21, 2019 By: */s/ Bryan Lewis*
Bryan Lewis
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 21, 2019 By: */s/ Bill White*
Bill White
Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 21, 2019 By: */s/ Guy L. Smith*
Guy L. Smith, Chairman and Director

Date: March 21, 2019 By: */s/ Emil R. Bedard*
Lt. Gen. Emil R. Bedard, Director

Date: March 21, 2019 By: */s/ Jack A. Davis*
Jack A. Davis, Director

Date: March 21, 2019 By: */s/ William P. Georges*
William P. Georges, Director

Date: March 21, 2019 By: */s/ Amelia Ruzzo*
Amelia Ruzzo, Director

Date: March 21, 2019 By: /s/ *David E. Ullman*
David E. Ullman, Director

EXHIBIT INDEX

| Exhibit No. | Description |
|-------------|---|
| 23.1 | <u>Consent of EisnerAmper LLP *</u> |
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* Filed herewith.

FINANCIAL STATEMENTS

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F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Intellicheck, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Intellicheck, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as

evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2010.

/s/ EisnerAmper LLP

EISNERAMPER LLP

Iselin, New Jersey

March 21, 2019

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INTELLICHECK, INC.**CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 2018 and 2017**

| | 2018 | 2017 |
|---|--------------|--------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$4,376,017 | \$8,010,161 |
| Accounts receivable, net of allowance of \$24,675 and \$18,750 as of December 31, 2018, and 2017, respectively | 1,019,434 | 652,627 |
| Inventory | 82,337 | 85,321 |
| Other current assets | 271,415 | 218,835 |
| Total current assets | 5,749,203 | 8,966,944 |
| NOTE RECEIVABLE, net of current portion | 29,017 | 71,138 |
| PROPERTY AND EQUIPMENT, net | 264,583 | 211,602 |
| GOODWILL | 8,101,661 | 8,101,661 |
| INTANGIBLE ASSETS, net | 306,575 | 463,578 |
| OTHER ASSETS | 9,742 | 67,181 |
| Total assets | \$14,460,781 | \$17,882,104 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$73,334 | \$71,578 |
| Accrued expenses | 726,918 | 815,350 |
| Deferred revenue, current portion | 704,536 | 739,980 |
| Total current liabilities | 1,504,788 | 1,626,908 |
| OTHER LIABILITIES | | |
| Deferred revenue, long-term portion | 29,486 | 87,736 |
| Other long-term liabilities | 6,802 | 158,407 |
| Total liabilities | 1,541,076 | 1,873,051 |
| COMMITMENTS AND CONTINGENCIES (Note 12) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock – \$.001 par value; 40,000,000 shares authorized; 15,638,765 and 15,009,246 shares issued and outstanding as of December 31, 2018 and 2017, respectively | 15,639 | 15,009 |

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| | | |
|--|---------------|---------------|
| Additional paid-in capital | 127,290,467 | 126,416,869 |
| Accumulated deficit | (114,386,401) | (110,422,825) |
| Total stockholders' equity | 12,919,705 | 16,009,053 |
| Total liabilities and stockholders' equity | \$ 14,460,781 | \$ 17,882,104 |

The accompanying notes are an integral part of these consolidated statements.

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INTELLICHECK, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|--|----------------|----------------|
| REVENUES | \$4,433,454 | \$3,598,296 |
| COST OF REVENUES | (386,617) | (521,835) |
| Gross profit | 4,046,837 | 3,076,461 |
| | | |
| OPERATING EXPENSES | | |
| Selling, general and administrative | 5,236,170 | 5,865,278 |
| Research and development | 2,904,166 | 1,916,107 |
| Impairment of intangible assets | - | 1,375,422 |
| | | |
| Total operating expenses | 8,140,336 | 9,156,807 |
| | | |
| Loss from operations | (4,093,499) | (6,080,346) |
| | | |
| OTHER INCOME | | |
| Interest and other income | 129,923 | 59,841 |
| | | |
| Net loss | \$(3,963,576) | \$(6,020,505) |
| | | |
| PER SHARE INFORMATION: | | |
| Loss per common share - | | |
| Basic/Diluted | \$(0.26) | \$(0.48) |
| | | |
| Weighted average common shares used in computing per share amounts - | | |
| Basic/Diluted | 15,542,480 | 12,428,652 |

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK, INC.**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | Common Stock | | Additional | Accumulated | Total |
|---|--------------|----------|--------------------|-----------------|-------------------------|
| | Shares | Amount | Paid-in Capital | Deficit | Stockholders' Equity |
| BALANCE, December 31, 2016 | 10,718,553 | \$10,719 | \$117,293,158 | \$(104,368,426) | \$12,935,451 |
| Cumulative adjustment upon modified retrospective adoption of ASU 2016-09 | - | - | 33,894 | (33,894) | - |
| Balance after adoption of recent accounting pronouncement | 10,718,553 | 10,719 | 117,327,052 | (104,402,320) | 12,935,451 |
| Stock-based compensation expense (employees and directors) | - | - | 435,679 | - | 435,679 |
| Issuance of common stock, net of costs | 4,168,750 | 4,169 | 8,508,692 | - | 8,512,861 |
| Exercise of stock options | 10,000 | 10 | 10,090 | - | 10,100 |
| Exercise of warrants | 63,500 | 63 | 139,637 | - | 139,700 |
| Vesting of restricted stock | 50,207 | 50 | (50) | - | - |
| Shares forfeited in exchange for payment of withholding taxes | (1,764) | (2) | (4,231) | - | (4,233) |
| Net loss | - | - | - | (6,020,505) | (6,020,505) |
| BALANCE, December 31, 2017 | 15,009,246 | \$15,009 | \$126,416,869 | \$(110,422,825) | \$16,009,053 |
| Stock-based compensation expense (employees and directors) | - | - | 186,707 | - | 186,707 |
| Exercise of stock options | 593,838 | 594 | 686,927 | - | 687,521 |
| Vesting of restricted stock | 35,681 | 36 | (36) | - | - |
| Net loss | - | - | - | (3,963,576) | (3,963,576) |
| BALANCE, December 31, 2018 | 15,638,765 | \$15,639 | \$127,290,467 | \$(114,386,401) | \$12,919,705 |

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

| | 2018 | 2017 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(3,963,576) | \$(6,020,505) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 245,548 | 412,351 |
| Stock-based compensation expense | 186,707 | 435,679 |
| Change in provision for doubtful accounts | 5,925 | - |
| Deferred rent | (5,202) | (47,628) |
| Impairment of intangible assets | - | 1,375,422 |
| Changes in assets and liabilities: | | |
| (Increase) in accounts receivable | (372,732) | (150,501) |
| Decrease (increase) in inventory | 2,984 | (14,774) |
| (Increase) in other current assets | (50,931) | (52,051) |
| Decrease (increase) in other assets | 57,439 | (5,883) |
| (Decrease) increase in accounts payable and accrued expenses | (74,672) | 339,326 |
| (Decrease) in deferred revenue | (93,694) | (175,128) |
| (Decrease) increase in other long-term liabilities | (158,407) | 158,407 |
| Net cash used in operating activities | (4,220,611) | (3,745,285) |
| CASH FLOWS FROM INVESTING activities: | | |
| Purchases of property and equipment | (141,526) | (37,614) |
| Collection on note receivable | 40,472 | 42,460 |
| Net cash (used in) provided by investing activities | (101,054) | 4,846 |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from the issuance of common stock | - | 8,512,861 |
| Net proceeds from issuance of common stock from exercise of stock options | 687,521 | 10,100 |
| Net proceeds from the issuance of common stock from exercise of warrants | - | 139,700 |
| Withholding taxes paid on vesting of restricted stock units | - | (4,233) |
| Net cash provided by financing activities | 687,521 | 8,658,428 |
| Net (decrease) increase in cash | (3,634,144) | 4,917,989 |
| CASH, beginning of year | 8,010,161 | 3,092,172 |
| CASH, end of year | \$4,376,017 | \$8,010,161 |

The accompanying notes are an integral part of these consolidated statements.

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1. NATURE OF BUSINESS

Business

Intellicheck, Inc. (the “Company” or “Intellicheck”) is a prominent technology company that is engaged in developing, integrating and marketing threat identification and identity authentication solutions to address challenges that include retail fraud prevention, law enforcement threat identification, and mobile and handheld access control and security for the government, military and commercial markets. Intellicheck’s products include Retail ID®, a solution for preventing fraud in the retail industry; Age ID®, a smartphone or tablet-based solution for preventing sale of age-restricted products to minors; Law ID®, a smartphone-based solution used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities.

Intellicheck continues to develop and release innovative products based upon its rich patent portfolio consisting of eighteen issued patents and six pending.

Liquidity

For the year ended December 31, 2018, the Company incurred a net loss of \$3,963,576 and used cash in operations of \$4,220,751. As of December 31, 2018, the Company had cash of \$4,376,017 and an accumulated deficit of \$114,386,401. On August 4, 2017, the Company completed a public offering of 4,168,750 shares of its common stock, offered to the public at \$2.25 per share resulting in net proceeds to the Company of approximately \$8,513,000 after deducting underwriter’s discounts and commissions paid by the Company. Intellicheck intends to use these net proceeds for general corporate purposes including product development in key markets, the integration of new features into existing new products and expansion of its sales force and engineering personnel. Based on the Company’s business plan and cash resources, Intellicheck expects its existing and future resources and revenues generated from operations to satisfy its working capital requirements for at least the next 12 months.

However, if performance expectations fall short or expenses exceed expectations, the Company may need to secure additional financing or reduce expenses to continue operations. Failure to do so would have a material adverse impact on its financial condition. There can be no assurance that any contemplated additional financing will be available on terms acceptable, if at all. If required, the Company believes it would be able to reduce expenses to a sufficient level to continue as a going concern.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. (“Mobilisa”) and Positive Access Corporation (“Positive Access”). All intercompany balances and transactions have been eliminated upon consolidation. On December 31, 2018, the Company merged its subsidiaries into Intellicheck, Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company’s customers, current economic conditions and other factors that may affect customers’ ability to pay.

Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods. As of December 31, 2018, most of our inventory related to Government and Commercial Identity products for intended near-term sales.

Long-Lived Assets and Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment, goodwill and intangible assets.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC topic 350 and ASC Topic 360 to determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from three to ten-years using the straight-line method. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the term of the lease or estimated useful life of the asset.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

The Company performed its annual impairment test of goodwill in the fourth quarter for the years ended December 31, 2018 and 2017. For the years ended December 31, 2018 and 2017, the Company determined no impairment charge was required.

Intangible Assets

Intangible assets include trade names, patents and non-contractual customer relationships as described more fully in Note 5. The Company uses the straight-line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

As a result of a projected loss of revenue from certain customers moving to another platform along with a shift in the Company's marketing strategy for 2018, the Company performed a quantitative impairment test as of December 31, 2017 for the patents, trade names and customer relationships acquired in the Mobilisa acquisition. The Company utilized the income approach to test its patent and tradenames, specifically the Relief-from-Royalty method, which assumes that a user of that intangible asset would have to make a stream of payments to the owner of the asset in return for the rights to use that asset. By acquiring the intangible asset, the user avoids these payments. As a result of the analysis, \$250,582 and \$287,928, respectively, of impairment was recorded due to the decline in the valuation of trade names and patents. The Company utilized the income approach to test its customer relationships, specifically the Multi-Period Excess Earnings Method, which estimates the cash flows attributable to the customer relationships, after considering the return associated with other contributing assets. As a result of the analysis, \$836,912 of impairment was recorded due to the decline in the valuation of the customer relationships. Application of the impairment test requires judgement, including determination of royalty rates, and projecting revenue attributable to the assets in order to determine fair value. These impairments, totaling \$1,375,422 in 2017, are recorded as Impairment of Intangible Assets on our Consolidated Statements of Operations. No impairment charge was made for fiscal year 2018.

Deferred Rent

The Company received certain rent abatements and incentives from landlord as an inducement to move into its Melville, New York office facility. The Company is amortizing these incentives on a straight-line basis over the period of its respective lease.

Revenue Recognition and Deferred Revenue

General

Effective January 1, 2018, the Company adopted ASC 606. In accordance with ASC 606, the Company's analysis indicated that there was no change to how the Company records revenue and that the standard only impacted enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations and the related judgments and estimates necessary to apply the new standard.

ASC 606 was applied using the modified retrospective method. There was no cumulative effect of the initial application to be recognized as an adjustment to opening retained earnings at January 1, 2018. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, *Revenue Recognition*.

The majority of license fees and services revenue are generated from a combination of fixed-price and per-scan contracts. Under the per-scan revenue model, customers are charged a fee each time the customer scans an identity document, such as a driver's license, with the Company's software. Under the fixed-price revenue model customers are charged a fixed monthly fee either per device or physical business location to access the Company's software. In certain instances, customization services are determined to be essential to the functionality of the delivered software. Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company measures revenue based on the consideration specified in a customer arrangement, and revenue is recognized when the performance obligations in an arrangement are satisfied. A performance obligation is a promise in a contract to transfer a distinct service to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. Customers typically receive the benefit of the Company's services as they are performed. Substantially all customer contracts provide that the Company is compensated for services performed to date.

Invoicing is based on schedules established in customer contracts. Payment terms are generally established at 30 days from the invoice date. Product returns are recorded as a reduction to revenue.

Revenue is measured based on a consideration specified in a contract with a customer, and excludes any sales incentives and amounts collected on behalf of third parties. Revenues are recognized when control of the promised goods or services is transferred to the customer, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. Furthermore, the Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Nature of goods and services

The following is a description of the products and services from which the Company generates revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each:

Hosted Subscription Services Revenue

Subscription services allows customers to access a set of data for a predetermined period of time. As the customer obtains access at a point in time but continues to have access for the remainder of the subscription period, the customer is considered to simultaneously receive and consume the benefits provided by the entity's performance as the entity performs. Accordingly, subscription revenue should be recognized over time based on the usage of the hosted subscription services, which can vary from month to month. The revenue is typically based on a formula such as number of stores using the service in a given month multiplied by a fee per store.

License Revenue

The Company also recognizes revenues from licensing of its software to customers. The license allows customers to access a set of data for a predetermined period of time. The licensed software requires continuing service or post contractual customer support and performance. As the customer obtains access at a point in time but continues to have access for the remainder of the subscription period, the customer is considered to simultaneously receive and consume the benefits provided by the entity's performance as the entity performs. Accordingly, the revenue should be recognized over time based on usage, which can vary from month to month. The revenue is typically based on a formula such as number of stores in a given month multiplied by a fee per store. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned.

Equipment Revenue

Revenue from the sale of equipment is recognized at a point in time. The point in time that the revenue is recognized is when the customer has control of the equipment which is when the customer receives the benefit and the Company's performance obligation has been satisfied. Depending on the contract terms, that could either be at the time the equipment is shipped or at the time the equipment is received.

Non-Recurring Services Revenue

The non-recurring services include items such as training, installation, customization, and configuration. The Company recognizes revenue from non-recurring services contracts ratably over the service contract period as the customer consumes the benefit as it is provided and the Company's performance obligation has been satisfied.

Extended Warranty

Extended warranty revenues is generated when a warranty is provided to the customer separately of other performance obligations when the equipment is sold. As the customer obtains access at a point in time and continues to have access for the remainder of the warranty term, the customer is considered to simultaneously receive and consume the benefits provided by the Company's performance as the Company performs. The related revenue is recognized ratably over the specified term of the warranty period. The extended warranty is separate to the Company's standard warranty of usually one year that it receives from its vendor.

Disaggregation of revenue

In the following tables, revenue is disaggregated by product and service and the timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue.