

Intellicheck
Q2 2021 Earnings Call
August 3, 2021

Presenters

Gar Jackson - Investor Relations

Bryan Lewis - Chief Executive Officer

Bill White - Chief Financial Officer and Chief Operating Officer

Q&A Participants

Mike Grondahl, Northland Securities

Jeff Van Rhee, Craig-Hallum Capital Group

Scott Buck, B. Riley

Rudy Kessinger, D.A. Davidson

Roger Liddell, Clear Harbor Asset Management

Operator

Greetings, and welcome to the Intellicheck Q2 2021 earnings conference call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Gar Jackson, Investor Relations. Please go ahead.

Gar Jackson

Thank you, operator. Good afternoon and thank you for joining us today for the Intellicheck second quarter 2021 earnings call. Before we get started, I will take a few minutes to read the forward-looking statement. Certain statements in this conference call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. When used in this conference call, words such as will, believe, expect, anticipate, encourage, and similar expressions as they relate to the company or its management, as well as assumptions made by and information currently available to the company's management, identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the company undertakes no obligation to and expressly disclaims any obligation to update or alter its forward-looking statements, whether resulting from such changes, new information, subsequent events, or otherwise.

Additional information concerning forward-looking statements is contained under the headings of Safe Harbor statements and risk factors listed from time to time in the company's filings with the Securities and Exchange Commission. Statements made on today's call are as of today,

August 3, 2021. Management will use the financial term adjusted EBITDA in today's call. Please refer to the company's press release issued this afternoon for further definition, reconciliation, and context for the use of this term. We will begin today's call with Bryan Lewis, Intellicheck's Chief Executive Officer, and then Bill White, Intellicheck's Chief Financial Officer, who will discuss the Q2 financial results. Following their prepared remarks, we will take questions from our analysts and institutional investors. Today's call will be limited to one hour, and I will now turn the call over to Bryan.

Bryan Lewis

Thank you, Gar, and I welcome everyone to the 2021 second quarter Intellicheck earnings call. As you saw in the press release, it was a productive quarter driven by reopening and new client on-boarding. Contributing to our progress and the steps we have taken towards increasing the size of the sales team, raising awareness of the company whereby increasing inbound leads, and the advancements we have achieved in rounding out the Intellicheck platform and providing many more risk insights for our clients. In addition, we are in the processing of revamping our pricing model to increase prices upon renewals. I will touch on these things during my prepared remarks, but first I'll highlight some of the key financials from the press release. Total revenues for the quarter were just shy of \$4.8 million. SaaS revenue was just over \$3.2 million. That was a SaaS increase of 16% over Q1 and a 93% increase year-over-year. We delivered half of the hardware order that we discussed on our last call for the teller workstations for a financial services company number three during the second quarter.

We had a net loss for the quarter of \$738,000 and adjusted EBITDA of negative \$46,000. The loss is primarily due to our investments in headcount for the sales and development teams in addition to marketing spend to drive our growth initiatives. Same-store volumes continued to improve, but while they are on the rise, they are still not up to pre-pandemic levels. As I said on the last call, in April, we were down 10% to 15% from April of 2019 depending on the retailer. For the second quarter, that includes a down 10% overall for the full quarter versus 2019, with improvements each month. I am pleased to say that the digital side of our business continues to increase each month and an increase in digital transaction volumes of 484% over the past 12 months. This is probably undercounting of some of our clients choose our API for both physical and digital transactions, and they represented (Sp) us. So, currently on a conservative basis, digital transactions represent about 6% of all non-age regulated transactions.

Turing to a few of the major financial services clients and what they added during the quarter, we're seeing continued growth in our partnerships. Financial services company number one has an extensive client base of merchants they provide credit cards for. Many are small change or single store that sell expensive merchandise like jewelry. These are bank branded cards, and the retailer is the one on the hook for fraud. So, our new (sp) integration solutions on our handheld device or a web portal is a perfect and economical way to stop the retailers fraud losses, both quickly and efficiently. Its net worth is over 14,000 merchants nationwide, and we've begun joint marketing effort with number one to introduce our solution to each of these merchants.

Financial services company number three completed the rollout of Phase I for a national home improvement chain that is initially implementing us as a self-checkout point of sales system. They are continuing to work to bring live (sp) the other POS systems, the assisted checkout, customer service, and commercial checkout. As mentioned, they also took delivery of the first half of the hardware or the teller workstation scanners. You may recall that they put these scanners in place so that we can validate passports in addition to driver's licenses and state IDs. We anticipate that the second half of the order will be equally split between Q3 and Q4. Installation is currently underway, and they anticipate a Q4 rollout.

Financial services company number four has completed the in-store rollout of the Midwest home improvement chain and is expected to go live with the digital channel for that and two other retailers this quarter. They continue to find new use cases for authentication. In order to prevent account takeover if on the web or in the app (sp) you change PII or privacy settings, they will ask you to validate yourself. Financial services company number eight completed the rollout of our services into their online applications process and are continuing to build into their mobile, app with expected delivery in early Q4. Outside of our core financial institutions, we brought a Baltimore based credit live in June. They wanted to stop fraud immediately, so they're using two of our new integration products to validate IDs for new account openings and on new loan applications. They are now looking at our APIs to work on integration to their core teller system to use our platform for all teller line transactions.

We are also pleased with the execution of another element of our strategic plan. We signed deals with several interesting software providers to enable them to use our technology inside their applications as resellers. The first is a provider of loan origination and servicing software. They have already identified their first client and are expecting to take them live near the end of the quarter. (Inaudible) provide software to help customers apply for credit online or at in-store kiosks for multiple credit providers. Development is ongoing at this reseller. While I'm not certain of the transaction volumes either of these resellers may deliver, it shows that we're making good on our plan to extend the reach of the sales force through channel partners.

As you can see, we've been pretty busy, and we believe we will continue this pace. Our optimism is based on what I touched on earlier, our commitment to take the critical steps that are key to continuing this trajectory. Our investment in the sales team is paying off, and we continue to expand the team with the addition of another senior salesperson during the quarter with more hiring in the pipeline. As I have said before, given the amount of opportunities we see, we will continue to hire salespeople as fast as Bruce (sp) feels he could effectively train them. Given what I'm seeing from the growth of a very realistic pipeline, our hiring is working, and I want Bruce to keep it up.

Marketing is also having an impact on the number of qualified sales leads that have increased six-fold over Q1. While many of these leads are in the age regulated space, the rest show that the awareness of Intellicheck was increasing, and some are from potentially lagged clients, as

well as significant channel partners. The nice thing about the age regulated clients is they are quick to close and are highly profitable, especially under our new pricing model. The (sp) age regulated space that accounts for approximately 6% of our SaaS revenue. Under the new price model, we are earning an average five times as much, so I like this type of client with a low cost of acquisition. I would say that it is impressive as the marketing initiative has been so far. We believe it is only in second gear.

I mentioned the new pricing model, and we view this as another important element in our continued success. Clients generally have an idea of how many transactions they will do in a year, and they certainly do at renewal (sp) time. For new contracts and renewals, clients commit to a set number of transactions per year. And while they commit to the lower the cost, the further in advance they prepay will also lower their cost per transaction. If they low ball the transactions and run out, they can continue to pay at the higher price and commit to a new contract at a higher transaction volume. These have been well received by our clients even as we (inaudible). So far all renewals have been at higher rates, which, again, we believe shows the value our clients place and the certainty our platform provides.

We continue to expand the capabilities of our platform. This allows us to expand into the much larger identity markets and provide KYC tools to financial services and fintechs (sp). We are working to bundle the products to help the growing number of fintech companies, several who our clients perform their KYC functions more easily and quickly. We are improving our internal technology to be agnostic when it comes to the services that our clients want us to bundle for them. We plan on working with multiple partners for different services so that our clients can take the service they think is best, knowing that they are starting with our ID validation tools, which provide the most certainty. We continue to build on our channel partner strategy, including discussions with companies that are often considered competitors but actually do things entirely different than we do. We feel we could become the best first step for their clients, as well.

I was recently speaking with a market research analyst, and he said something that really put it in context for me. He said in speaking with the bank clients from (sp), the client told him that OCR (sp) was 16% affected and followed up with, with that, I might as well flip a coin. Through our investment in sales and marketing, people are being given to understand we are different and that we bring certainty to the transaction as opposed to a coin toss. We believe that our investment in expanding the platform to help us bring that certainty to more markets. I'm excited for Intellicheck's future. With that, I will turn it over to Bill to discuss the financials in more detail.

Bill White

Thank you, Bryan, and a good day to our shareholders, guests, and listeners. I'd like to discuss some of the financial information that was contained in our press release for the second quarter ending June 30, 2021. I will begin with our second quarter results. Quarter-over-quarter, SaaS revenue grew 93% to 3,234,000 versus \$1,671,000 in the prior year. Total

revenue for the second quarter ended June 2021 increased 160% to 4,797,000 compared to 1,842,000 in the prior year comparable period. Gross profit as a percentage of revenue was 69.4% for the quarter ended June 30, 2021 compared to 88.6% for the quarter ended June 30, 2020. During the quarter, we sold scanning equipment to a bank that is continuing to rollout our software to their big branches, which are normally sold at lower margins. Excluding the sales of hardware in both periods on a pro forma basis, gross profit as a percentage of revenue was 93.3% for the quarter ended June 30, '21 as compared to 89.8% for the quarter ended June 30, 2020.

Operating expenses consist of selling, G&A, and research and development expenses, increased by 69% or 1,665,000 to 4,067,000 for the quarter ended June 30, 2021 versus 2,402,000 for the same quarter in 2020. The increase was primarily due to higher stock-based compensation cost, increased headcount, and expanded research and development efforts. The company posted a net loss of 738,000 for the three months ended June 30, 2021 compared to a net loss of 760,000 for the quarter ended June 30, 2020. The net loss per diluted share was \$0.04 versus a net loss per diluted share of \$0.05 in the prior year period. Adjusted EBITDA for the quarter ended June 30, 2021 was negative 46,000 compared to a negative EBITDA of 619,000 in the June 30, 2020 quarter. Interest and other income were negligible for the quarter ended June 30, 2021 and 2020.

I'd now like to focus on the company's liquidity and capital resources. As of June 30, 2021, the company had net cash of 11.9 million, working capital defined as current assets minus current liabilities of 13.3 million, total assets of 25.4 million, and stockholders' equity of 22.1 million. During the six months ended June 30, 2021, the company used net cash of 1.2 million compared to net cash provided of 11.2 million during the six-month period June 30, 2020. Net cash used in operating activities was 1,076,000 for the six-month period ended June 30, 2020 compared to 262,000 for the same period in 2020. Net cash used in investing activities was 182,000 for the six months of 2021 compared to net cash used of 110,000 for the six-month period ended June 30, 2020, and we generated 77,000 from financing activities for the six-month period ended June 30, 2021 compared to 11.6 million for the same period in 2020. The company has a \$2 million revolving credit facility with Citibank that is secured by collateral accounts. There are no amounts outstanding in this facility. We currently anticipate that our available cash, as well as expected cash from operations, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next 12 months. As of December 31, 2020, the company had net operating loss carryforwards of 17 million. I'll now turn the call over to the operator to take your questions. Operator?

Operator

At this time, we'll be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the

handset before asking your question. One moment while we pull for questions. Your first question comes from Mike Grondahl with Northland Securities. Please state your question.

Mike Grondahl

Hey, Bryan and Bill. Congrats on the quarter and especially the 93% SaaS growth year-over-year. Is there any way you can at least roughly break that down between maybe new accounts, existing accounts, and price increases just to kind of give us a flavor of the drivers?

Bryan Lewis

I'm going to say the majority is going to be from new usage at existing and adding in new clients, because our big—our larger contracts are coming up for renewal now. The two main ones with number four and number three are now and at the end of the year. I'd say that a small but significant portion I guess as a percentage of what it was in an age restricted space, but it's still a small portion of the revenues. So, I'm going to say that most of it—a good chunk of it are the firms that we had brought on over the course of the pandemic that weren't really producing at the level of the normal world, and then the rest is going to be new clients. But off the top of my head, I don't have the specific breakdown of that.

Mike Grondahl

Got it. Got it. And implementations, did they bounce back in 2Q? And kind of what does the backlog look like for new implementations?

Bryan Lewis

Sure, Bill, you just looked up those numbers (inaudible)--.

Bill White

And we were just taking about it.

Bryan Lewis

Yeah, right before the call.

Bill White

Yes, implementations are completed through the end of July were 19, and there is about 40 in backlog.

Mike Grondahl

Got it. And, Bill, would you expect those 40 to get implemented this year still?

Bill White

We're hoping. Some of the holdup would be on the customers side, Mike, and how fast they can move from an IT perspective, but we're moving in that direction. We're doing everything we can to get it implemented.

Bryan Lewis

Right. And some of them are retailers (sp) and other things like that, so it's—then they've got to get out and get it to their clients and things. But generally, again, retailers they'll tend to lockdown anything in Q4 in terms of touching our (sp) point-of-sale system. They don't go much past mid-October. But the good thing is, in the sort of the expanded world we're selling to and particularly with retailers and then also banks doing for their own sort of teller workstations and other things. They don't have the same restrictions or fears about touching their point-of-sale system during the holiday season.

Mike Grondahl

Got it. Great. Well, hey, nice to see the SaaS growth again. Thanks, guys.

Bryan Lewis

Thank you.

Bill White

Thanks, Mike.

Operator

Your next question is from Jeff Van Rhee with Craig-Hallum. Please go ahead.

Jeff Van Rhee

Great. Thanks for taking my questions, guys. Just a couple from me. On the pipeline question, I might have missed it or the comment in the prepared script. I think you said leads are up 6x, and you're commenting a little bit on the pipeline. Was—just to be clear, was that the quantity of leads or the overall value of the leads? And then, just maybe a little more while you're on pipeline, talk about exactly sort of how the makeup of that pipeline is morphing here.

Bryan Lewis

Yeah. So, that was overall leads coming in. So, as (inaudible). And to be clear, just if it wasn't—the majority of them are coming from age restricted product sales, which we have dramatically increased the pricing of, and we find that very, very profitable business because the transaction costs are pretty high. So—and I like it because it's quick business, turns over, cost of sales isn't that expensive. We did also—and what I'm happy to do is we're seeing a lot more potential resellers and large clients finding us, and in the past they couldn't. So, there's a very interesting prospects we're talking to right now, to talk—to put our product in their stuff for either age verification or (inaudible) KYC stuff for loan origination and those types of things. So, predominantly lower revenue but quick sales and then some really good large ones. So, I'd say the marketing is working.

Jeff Van Rhee

Yeah. Great. And then, on the leadership front, obviously, you added Garrett (sp) and Bruce ,and you've been broadening things out. But specifically with Bruce, since his arrival, maybe

spend a minute on the sales front, just where are you in terms of headcount additions? I think you referenced one addition in the quarter, but just goals for the end of the year and maybe a little more color about what's changing in the sales org, sales structure.

Bryan Lewis

Yeah. So, we're up to 10 people in the sales organization, I think that there a number of things that have changed. We've got proper CRN, and I think Bruce is doing a great job of training the people. He brought a lot of identity knowledge to the table. One of the other things about the pandemic is, it's easy for us to now hire anywhere. Long Island (sp) is a great spot, but where we were at made it difficult to hire people. Now we're getting talent from anywhere. And I think the big change is probably Bruce's management and training style, got a super motivated team. They can—the compensation plan if they bring in the revenue like (sp) we expect them to given the margin that we have, they can be very well compensated for it. So, we've got a really good competitive ,hungry team out there, with what I think is really good sales leadership.

Jeff Van Rhee

And one last one from me if I could. On the distribution front, I think you talked about partnerships and some new avenues that you're going down. Are there any (inaudible) goals you've established in terms of what you want in these partnerships or new partnerships to represent as a percent of revenue? Or just give us a sense of the magnitude of what you're working there.

Bryan Lewis

Well, I think that it could represent a significant portion of revenue. You look at a lot of our OCR competition. A lot of them are basically intel inside, and we can and should be doing the same time. I think it's a wondering way to expand sales force, because there are a lot of products out there that have authentication tools built into them. We never spent a lot of time talking to those folks because nobody had ever heard of us. But now that we're being mentioned more in trade and research journals and some of the papers put out by the likes of (inaudible) and Gartner and Javelin and other things, we're getting to be known. And as soon as we get talking to somebody and we talk about certainty and we talk about the fact that we're way better than a coin flip, they begin to get why we're different and know they can take a look at us. So, given how accurate we are and how much easy we are for the end consumer, because you don't have to take a photo with shiny lights just to make it work, these resellers seem rather interested in it. So, Bruce's team (inaudible) they all have hard targets on particular resellers we want them going after, and they are going to be monitored very carefully on how well we're reaching those goals, but I do think it could become a significant portion of revenue. Because, if you think about it, (inaudible) the banks are resellers. So—because they're the ones really selling to retailers. So, we know the model works. We just need to expand the resellers that we're talking to.

Jeff Van Rhee

Yeah. Yeah, it's definitely worked. Bill, one last one on the model, just on the expense growth, I think you had talked about 25 to 30, just any updates there on how to think about expense growth?

Bill White

Yeah, I think it was 25 to 35, and obviously we're outpacing that. I think if we're modeling out through the end of the year, taking a 4 million to 4.5 million a quarter OpEx is probably more accurate.

Jeff Van Rhee

Okay. Fair enough. Thanks so much, guys.

Bryan Lewis

Thank you.

Operator

Your next question is from Scott Buck with B. Riley. Please state your question.

Scott Buck

Hey. Good afternoon, guys. On the gross margin on the SaaS at 93.3, Bryan, how much of that is maybe some of those pricing changes that you guys have implemented versus just higher volumes in the quarter, obviously, versus a year ago?

Bryan Lewis

I think the majority right now would be the volumes.

Scott Buck

Volumes? Okay. That's helpful. And then, I'm curious, with some of the new hires you've made on the sales side, what's kind of the typical ramp up period for those folks to really get their feet under them and start to make a meaningful contribution?

Bryan Lewis

I think a good salesperson is going to get a little bit of luck and a little bit of skill over time. We've had—some of our new people have already closed some smaller deals. The bigger deals take a little bit more time, and to really fully understand it, I would say three to four months, if you're not seeing productivity out of the salesperson, then maybe they're not right for the fit for that particular type of sale. So, I think that's pretty much what we're kind of looking at. But so far I would say that they are all coming up to speed a lot quicker than I anticipated. They really spend a lot of time working with each, bringing each other up to speed. So, it's a really, really tight team that knows they all succeed when they each succeed, so the help is amazing that they're giving each other.

Scott Buck

Okay. That's good color. And last one from me. You guys talked a little bit about increasing investment on the R&D side. Is there anything that you could be doing inorganically, makes sense to go out and acquire the technology rather than try to build it yourself?

Bryan Lewis

Well, for lot of things we do. I'm not a fan of reinventing the wheel, but part of what we're doing is, a lot of it, we're sort of redoing the back end, if you will, so it's easier for us to plug and play with maybe other providers of services that people want us to bundle in, and then on the other side, making it easier for our clients to plug and play into us and pick which one of the service providers they want so that they can build their (inaudible) best of breed authentication service. So, it's really a lot of retouring. Where it looks like something that it's going to be just a project with a beginning and middle and an end, we're certainly using outsource for that, so that, when that project is done, we don't have a headcount that was better used one off. So, we're being pretty smart about how we do it. And again, if it's something we can get or buy, we do it. It's the same way that—I've said this for a long time, in the whole facial recognition world (sp) I first thought, okay, maybe we need to go build that. And then there's so many of them selling it, why bother? It's better to do that through partnerships, and that's how we look at everything in the whole development stock and queue.

Scott Buck

Great. Makes sense, guys. I appreciate the time. Thank you.

Bryan Lewis

Thank you.

Operator

Your next question comes from Rudy Kessinger with D.A. Davidson. Please state your question.

Rudy Kessinger

Hey, guys. Great. Thanks for taking my questions. I want to sort of go back to the pricing. I think you had said with age restricted stuff, I think the new pricing model, I think you had said was a five-fold increase. Correct me if I'm wrong there. But with respect to financial services customer three and four, I think you said three—one of them is coming up I think this quarter, the other one end of the year. Just can you help us put any bounds (sp) around the kind of expected price increase you see with those two?

Bryan Lewis

We haven't begun really on four, so I can't tell you that. I mean—and I will say that everything is going up. And with number three, we're down now to just some minor legal mix is the way I would look at it. But they're prepared to sign a multiyear deal, two year deal guaranteeing a significant amount of transactions a year and prepaying for that full year. So—and then they also are anticipating that probably their volumes will go up. So, that's that whole model of prepay commit, and we're still getting price increases. So—and they're going to vary across the

board given where they started. And again, the older the contract, in my opinion, the less value we were getting for it, and so some of these much older contracts were at rates I wouldn't even thought of signing deals. And over time, we've been increasing it. So, the later the contract was signed, the more close to what I'd say real market pricing it is. So, it's a much older contracts where we're going to see and probably significant increases in pricing.

Rudy Kessinger

Got it. And then, last quarter you had talked about the 25 NDAs you had signed through the end of April. I'm curious if that's—are you able to share how many NDAs you signed this quarter? And then, on those 25 you signed, what's the typical duration from NDA signing to contract signing? And obviously they aren't all go through. But—and then may be is there anything you can share of (sp) how many of those have actually turned into signed contracts to date?

Bryan Lewis

I'd say a lot of the ones that were for some of the resellers that I talked about, those were examples. There are some that we're in contract negotiation with now. I don't know of a single one that has not—that has said no, it's not working out. Some of them might be timing issues of when we can get around to maybe doing some development we need to (sp) connect to them. All of them I think are still active or closed or in contract negotiations. And, Bill, you probably have idea of how many we signed this quarter because I know you are busy, busy doing them.

Bill White

Yeah. Well, actually we signed 22 in July alone, Bryan.

Bryan Lewis

Yeah.

Rudy Kessinger

Wow. Got it. And then just lastly, certainly the partners we saw—it sounds like you are making decent early progress there. I'm curious with some of these companies who people would traditionally think of as competitors, have you seen any awareness from them or maybe any changes in behavior, I guess maybe in one of two aspects, either in then being more open to potentially partner with you guys on the awareness front or maybe them seeing you as more of a competitor than they have in the past and maybe changing their stance or trying to change how they're doing things?

Bryan Lewis

Okay. At this point in time, it's more how do we partner. They understand we do something very, very different that could be beneficial to their clients. So, we haven't seen anything that's become more competitive, because, again, it's—to consider them competitors, we do something so different. At the end, we're all trying to figure out is the person really real, but we go about it in such a completely different manner that it's hard to say that it's competition.

Rudy Kessinger

Alright. Got it. That's very helpful. That's it from me. Thanks, guys.

Bill White

Thank you.

Bryan Lewis

Thanks, Rudy.

Operator

Your next question comes from Roger Liddell with Clear Harbor Asset Management. Please state your questions.

Roger Liddell

Thank you, operator. And, Bryan and Bill, good afternoon. Great report. Thank you. I wanted to get a little texture on the age restricted products. Is the acceleration you're seeing here a function of cannabis? And if so, hold our hands a little bit on the sustainability of that, or maybe it's ready to blow right through the ceiling. Or are we really speaking of tobacco and alcohol, the conventional stuff?

Bryan Lewis

I'd say right now the majority of it is alcohol, so alcohol, alcohol delivery. We've certainly seen cannabis business. We've got a pretty good business already. I think the better way for us to get into cannabis is, some of the resellers and partners that we're talking to are providers of the inventory and point-of-sale systems for cannabis stores. But what we're seeing—because there's certainly some interesting laws about advertising to cannabis people, and we've got to be careful how you go about that on social media. So, it's much easier for us to target the traditional alcohol and tobacco, and tobacco has by far been the largest amounts of need in the age regulated space.

Roger Liddell

Is vaping significant in any way?

Bryan Lewis

It was for a while (Inaudible) pre-COVID when there was so much in the press about it, but it really has died down so much. I'm not quite sure that there is a lot of enforcement happening in that area, but there certainly is a lot of enforcement in the alcohol space. One of our things is certainly having so many law enforcement agencies that use our products to go out and do enforcement. They're probably some of our best salespeople, because the first thing the bar owner asks is like what are you using? And we know in some places, if they'll give them a warning, some of our law enforcement client starts to give them a warning if they put in our product, because then they know that they're going to be actively checking and keeping kids

out. So, it's almost like an incentive for them to do it. So, it's, I think, a combination of a lot of factors there, but certainly alcohol gets more enforcement, I think, than anything else.

Roger Liddell

Okay. Alright. Just a little clarification from Bill. You mentioned the, was it, 22 implementation you saw in July alone. Is that a spike, or could this be a run rate indicator?

Bill White

Those were NDAs, Roger. Fully executed NDAs.

Roger Liddell

(Inaudible) Okay. Conversion rates from NDA I think it's almost a one for one, but tell me.

Bill White

I'd say that--.

Bryan Lewis

I'm sorry. Go ahead, Bill.

Bill White

Oh, I was just going to say we had a high conversation rate, Roger. I don't know that we've—we never just said publicly what the percentage of conversion rate is. Bryan, have we?

Bryan Lewis

No. I mean, it's a good thing. We can start tracking it and talking about it. But like I said, of any the NDAs so far that we've signed this year, I can't off the top of my head—maybe there's a couple (inaudible) decided there wasn't a fit. But off the top of my head, I can't recall anywhere they said, no, this doesn't work for us. Some have signed, and some are in technical discussions (inaudible) okay how do we now connect to you, those types of things. So, I'm pleased with it for sure.

Roger Liddell

Final question is—and I hope you can give some texture, because I think it's important for us to understand better. It's on the policies and practices of sharing the fraud losses where one side or the other being the bank holder on fraud losses. Are the old practices of banks and financial service institutions continuing in this fraud challenged era (sp)? And what about incentives, like if you install IDNs suite (sp), then we will (inaudible) the financial service if proportionally larger amount of the fraud losses and working the other way also?

Bryan Lewis

Yeah. I'd say it is, for the most part, still staying that kind of traditional model where the bank is the one that eats (sp) the fraud. But there is oftentimes it is split maybe on account look ups or other things like that. So, the retailer always has incentive to want to help with the fraud. And

then the other thing, too is, even the retailers that eat none of it, a lot of them are very happy to do it, because they know they are going to get more credit cards, because it speeds the process up. It's seamless to the end user, and, again, they've told us multiple times that you shop about four times more often in a store where you've got a card with reward points and all that other stuff. So, in talking to some of the retailers, they tell us that they have targets every year for the number of credit card they want to onboard. So, they like the speed and simplicity of our process.

Now, again, the smaller retailers, they're more (inaudible), and that's why, number one, they'll let them get instant credit in the store, but it's branded number one card, and the retailer eats out the loss. Now, they started slowly introducing us to some of those clients, and they snap us up, because you (inaudible) the year, a couple of things are going to happen. One, oftentimes the bank will stop working with them, because they don't want to be part of all that kind of fraud, and, two, it adds up for that retailer. So, they're happy to pay for our solution. It's not high volume (sp), but there's a lot of them to sell to. So, I think it can add up very quickly. So— then I also say, third point on that in terms of color, even though the banks eat the loss, we certainly know that number four, they've taken credit card programs away from other retail—I mean, other banks because they give them an incentive. They'll give them a better program rate (sp), because number four knows that this is going to be a much more profitable account because the fraud goes away. So, we've been on sales calls with them talking about how easy it is to implement and what they are going to do so that number four gets the client. So, I think some of the smarter guys are realizing that they can use fraud prevention as a sales tool to gain more programs.

Roger Liddell

Okay. Extremely helpful. Thank you.

Bryan Lewis

Yep.

Operator

Ladies and gentlemen, we have reached the end of the question-and-answer session, and I would now like to turn the call back to Mr. Bryan Lewis for closing remarks.

Bryan Lewis

Hi. So, I just want to thank everybody for attending the call. I was excited to talk about the quarter. As I said, I'm very excited about the future, and I look forward to the Q3 earnings call and speaking to you all again. So, thank you and have a good evening.

Operator

That does conclude our conference. Thank you for your participation. You may now disconnect.