

Intellicheck, Inc.
Form 10-Q
August 14, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2017

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.: 001-15465

Intellicheck, Inc. (f/k/a Intellicheck Mobilisa, Inc.)
(Exact name of Registrant as specified in its charter)

Delaware

11-3234779

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

100 Jericho Quadrangle, Suite 202, Jericho, NY 11753

(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act 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 []

Indicate by check mark whether 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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes [X] No []

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

Large accelerated filer [] Accelerated filer [] Non-accelerated filer [] Smaller reporting company [X]
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [] No [X]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. []

Number of shares outstanding of the issuer's Common Stock:

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| Class | Outstanding at August 14, 2017 |
|--------------------------------|--------------------------------|
| Common Stock, \$.001 par value | 14,981,633 |

INTELLICHECK, INC.

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Exhibits

- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer
- 32 18 U.S.C. Section 1350 Certifications
- 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

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLICHECK, INC.

CONSOLIDATED BALANCE SHEETS

| | June 30, 2017 (Unaudited) | December 31, 2016 |
|---|------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash | \$ 1,035,190 | \$ 3,092,172 |
| Accounts receivable, net of allowance of \$74,354 as of June 30, 2017 and December 31, 2016, respectively | 775,721 | 502,126 |
| Inventory | 82,127 | 70,547 |
| Other current assets | 354,134 | 165,473 |
| Total current assets | 2,247,172 | 3,830,318 |
| NOTE RECEIVABLE, net of current portion | 94,942 | 114,909 |
| PROPERTY AND EQUIPMENT, net | 232,752 | 270,776 |
| GOODWILL | 8,101,661 | 8,101,661 |
| INTANGIBLE ASSETS, net | 1,996,781 | 2,154,563 |
| OTHER ASSETS | 59,940 | 61,298 |
| Total assets | \$ 12,733,248 | \$ 14,533,525 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 93,391 | \$ 14,140 |
| Accrued expenses | 573,416 | 519,957 |
| Deferred revenue, current portion | 695,852 | 825,538 |
| Total current liabilities | 1,362,659 | 1,359,635 |
| OTHER LIABILITIES: | | |
| Deferred revenue, long-term portion | 131,330 | 177,306 |
| Deferred rent | - | 61,133 |
| | 1,493,989 | |
| Total liabilities | | 1,598,074 |

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS EQUITY:

| | | |
|--|---------------|---------------|
| Common stock - \$.001 par value; 40,000,000 shares authorized; 10,808,027 and 10,718,553 shares issued and outstanding, respectively | 10,808 | 10,719 |
| Additional paid-in capital | 117,666,081 | 117,293,158 |
| Accumulated deficit | (106,437,630) | (104,368,426) |
| Total stockholders' equity | 11,239,259 | 12,935,451 |
| | | |
| Total liabilities and stockholders' equity | \$ 12,733,248 | \$ 14,533,525 |

See accompanying notes to consolidated financial statements.

INTELLICHECK, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------------|---------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| REVENUES | \$951,334 | \$940,354 | \$1,663,994 | \$1,891,022 |
| COST OF REVENUES | (204,634) | (191,654) | (314,070) | (354,696) |
| Gross profit | 746,700 | 748,700 | 1,349,924 | 1,536,326 |
| OPERATING EXPENSES | | | | |
| Selling, general and administrative | 1,352,361 | 1,830,147 | 2,525,244 | 3,846,923 |
| Research and development | 495,048 | 697,747 | 865,645 | 1,617,203 |
| Total operating expenses | 1,847,409 | 2,527,894 | 3,390,889 | 5,464,126 |
| Loss from operations | (1,100,709) | (1,779,194) | (2,040,965) | (3,927,800) |
| OTHER INCOME | | | | |
| Interest and other income | 2,156 | 4,078 | 5,655 | 9,193 |
| Net loss | \$(1,098,553) | \$(1,775,116) | \$(2,035,310) | \$(3,918,607) |
| PER SHARE INFORMATION | | | | |
| Loss per common share - Basic/Diluted | \$(0.10) | \$(0.19) | \$(0.19) | \$(0.42) |
| Weighted average common shares used in computing per share amounts - Basic/Diluted | 10,769,437 | 9,108,856 | 10,750,751 | 9,393,587 |

See accompanying notes to consolidated financial statements.

INTELLICHECK, INC.**CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

For the six months ended June 30, 2017

(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total Stockholders' Equity |
|--|------------------------|------------------------|----------------------------------|------------------------|----------------------------------|
| BALANCE, January 1, 2017 | 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 | - | - | 191,518 | - | 191,518 |
| Exercise of stock options | 10,000 | 10 | 10,090 | - | 10,100 |
| Exercise of warrants | 62,500 | 62 | 137,438 | - | 137,500 |
| Vesting of restricted stock | 16,974 | 17 | (17) | - | - |
| Net loss | - | - | - | (2,035,310) | (2,035,310) |
| BALANCE, June 30, 2017 | 10,808,027 | \$10,808 | \$117,666,081 | \$(106,437,630) | \$11,239,259 |

See accompanying notes to consolidated financial statements.

INTELLICHECK, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

| | Six months ended June 30, | |
|---|---------------------------|---------------|
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$(2,035,310) | \$(3,918,607) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 208,600 | 223,170 |
| Noncash stock-based compensation expense | 191,518 | 667,694 |
| Deferred rent | (22,215) | (17,559) |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (273,595) | 342,449 |
| (Increase) in inventory | (11,580) | (2,245) |
| (Increase) in other current assets | (187,879) | (125,282) |
| Decrease (increase) in other assets | 1,358 | (1,498) |
| Increase in accounts payable and accrued expenses | 93,792 | 166,096 |
| (Decrease) increase in deferred revenue | (175,662) | 41,157 |
| Net cash used in operating activities | (2,210,973) | (2,624,625) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (12,794) | (39,316) |
| Collection of note receivable | 19,185 | 19,249 |
| Net cash provided by (used in) investing activities | 6,391 | (20,067) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock | - | 1,780,800 |
| Net proceeds from issuance of common stock from exercise of stock options | 10,100 | - |
| Net proceeds from issuance of common stock from exercise of warrants | 137,500 | - |
| Purchase and retirement of common stock | - | (1,096,608) |
| Net cash provided by financing activities | 147,600 | 684,192 |
| Net decrease in cash | (2,056,982) | (1,960,500) |
| CASH, beginning of period | 3,092,172 | 5,953,257 |
| CASH, end of period | \$1,035,190 | \$3,992,757 |

See accompanying notes to consolidated financial statements.

INTELLICHECK, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF BUSINESS

Business

Intellicheck, Inc. (the “Company” or “Intellicheck”), formerly known as Intellicheck Mobilisa, Inc., is a leading 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™, the industry leading 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 over 25 patents.

Effective May 16, 2017, the Company formally changed its legal name from Intellicheck Mobilisa, Inc. to Intellicheck, Inc.

Liquidity

For the six months ended June 30, 2017, the Company incurred a net loss of \$2,035,310 and used cash in operations of \$2,210,973. As of June 30, 2017, the Company had cash of \$1,035,190 and an accumulated deficit of \$106,437,630.

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 \$8,570,000 after deducting underwriters 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. This public offering is referenced in Note 9. 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 consolidated 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 Intellicheck and its wholly owned subsidiaries, Mobilisa, Inc. ("Mobilisa") and Positive Access Corporation ("Positive Access"). All intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company's consolidated financial position at June 30, 2017 and the consolidated results of operations for the three and six months ended June 30, 2017 and 2016 and consolidated stockholders' equity and cash flows for the six months ended June 30, 2017. All such adjustments are of a normal and recurring nature. Interim consolidated financial statements are prepared on a basis consistent with the Company's annual consolidated financial statements. Results of operations for the six month period ended June 30, 2017, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2017.

The consolidated balance sheet as of December 31, 2016 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

References in this Quarterly Report on Form 10-Q to "authoritative guidance" is to the Accounting Standards Codification issued by the Financial Accounting Standards Board ("FASB").

For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)*." ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board ("IASB") to improve financial reporting by creating common revenue recognition guidance for U.S. Generally Accepted Accounting Principles ("GAAP") and International Financial Reporting Standards ("IFRS"). ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic*

606): *Deferral of the Effective Date*, which defers the effective date by one year, with early adoption on the original effective date permitted. As a result, ASU 2014-09 will be effective for annual and interim periods beginning after December 15, 2017.

The Company is in the process of evaluating the impact of its pending adoption of this ASU on revenue transactions, including any impacts on associated processes, systems, and internal controls. The Company's evaluation includes the determination whether the unit of account (i.e., performance obligations) will change as compared to current GAAP, as well as determining the standalone selling price of each performance obligation. Standalone selling prices under the new guidance may not be substantially different from the Company's current methodologies of establishing fair value on multiple element arrangements. The Company has started reviewing each of its revenue streams that may have an impact on its consolidated financial statements and is also assessing the capitalizing of its sales commissions upon adoption of the new ASU and is in the process of evaluating the period over which to amortize these capitalized costs. The Company continues to evaluate the impact of this guidance on its consolidated financial statements and any preliminary assessments are subject to change and expects completion of this evaluation in the third quarter of 2017.

On January 1, 2017, the Company adopted ASU No. 2016-09, *Improvements to Employee Share Based Payment Accounting* which simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards, forfeitures and classification on the statement of cash flows. ASU 2016-09 allows the Company to make an accounting policy election to either estimate forfeitures or account for forfeitures as they occur. The Company has elected to account for forfeitures as they occur and is required to be applied on a modified retrospective basis. As a result, the Company recorded a cumulative effect adjustment to accumulated deficit and additional paid-in-capital in the amount of \$33,894 as of January 1, 2017 on the consolidated balance sheet.

Use of Estimates

The preparation of the Company's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include the evaluation of goodwill for impairment, valuation of intangible assets, deferred tax valuation allowances, and the fair value of stock options granted under the Company's 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.

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 June 30, 2017 and December 31, 2016, the majority of inventory is related to Government and Commercial Identity products for intended near-term sales.

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 authoritative 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. There were no impairment charges recognized during the six months ended June 30, 2017 and 2016.

Intangible Assets

Intangible assets include trade names, patents and non-contractual customer relationships. 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. There were no impairment charges recognized during the six months ended June 30, 2017 and 2016.

Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, "Accounting for 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 carryforwards. 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. The Company has recorded a full valuation allowance for its net deferred tax assets as of June 30, 2017 and December 31, 2016, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”. This pronouncement requires that the Company calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. The Company’s financial instruments include cash, accounts receivable, note receivable, accounts payable and accrued expenses. As of June 30, 2017 and December 31, 2016, the carrying value of the Company’s financial instruments approximated fair value, due to their short-term nature.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, “Revenue Arrangements with Multiple Deliverables,” for multi-element arrangements that include tangible products containing software essential to the tangible product’s functionality and undelivered software elements relating to the tangible product’s essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company’s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company’s technology are recognized as revenues in the period they are earned.

The Company also performs consulting work for other companies. These services are billed on a time and materials basis. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to four years.

Business Concentrations and Credit Risk

During the three and six month periods ended June 30, 2017, the Company made sales to two customers that accounted for approximately 28% and 24% of total revenues, respectively. The revenue was associated with two commercial identity customers. These customers represented 23% of total accounts receivable at June 30, 2017. During the three and six month periods ended June 30, 2016, the Company made sales to three customers that accounted for approximately 38% and 35% of total revenues, respectively. The revenue was associated with three commercial identity sales customers.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss for the period by the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net loss per share excludes all anti-dilutive shares.

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| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|---------------|
| | 2017 | 2016 | 2017 | 2016 |
| Numerator: | | | | |
| Net Loss | \$(1,098,553) | \$(1,775,116) | \$(2,035,310) | \$(3,918,607) |
| Denominator: | | | | |
| Weighted average common shares – Basic/Diluted | 10,769,437 | 9,108,856 | 10,750,751 | 9,393,587 |
| Net Loss per share – Basic/Diluted | \$(0.10) | \$(0.19) | \$(0.19) | \$(0.42) |

The following table summarizes the common stock equivalents excluded from loss per diluted share because their effect would be anti-dilutive:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Stock options | 1,652,920 | 2,054,547 | 1,652,920 | 2,054,547 |
| Warrants | 472,801 | 688,301 | 472,801 | 688,301 |
| Restricted stock | 28,025 | 53,017 | 28,025 | 53,017 |
| | 2,153,746 | 2,795,865 | 2,153,746 | 2,795,865 |

3. INTANGIBLE ASSETS

The changes in the carrying amount of intangible assets for six months ended June 30, 2017 were as follows:

| | |
|---------------------------------|-------------|
| Balance at December 31, 2016 | \$2,154,563 |
| Deduction: Amortization expense | (157,782) |
| Balance at June 30, 2017 | \$1,996,781 |

The following summarizes amortization of intangible assets included in the accompanying consolidated statements of operations:

Six Months Ended

| | Three Months Ended | | | |
|----------------------------|-----------------------|----------|-----------|-----------|
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Cost of sales | \$59,164 | \$59,163 | \$118,326 | \$118,326 |
| General and administrative | 19,728 | 19,728 | 39,456 | 39,455 |
| | \$78,892 | \$78,891 | \$157,782 | \$157,781 |

4. NOTE RECEIVABLE

On August 31, 2015, the Company sold the wireless enterprise assets to the Jamestown S’Klallam Tribe (the “Buyer”) for total consideration of \$350,000 which consists of an upfront cash payment of \$30,000, the issuance of a promissory note totaling \$200,000 and contingent consideration up to a maximum of \$120,000 based on future earnings. Under the terms of the promissory note, monthly payments of \$3,683 including principal and interest at 4%, are to be made over a 60-month term expiring in August 2020. At June 30, 2017, the total note receivable is \$134,481, of which \$39,539 and \$94,942 is included in other current assets and note receivable, net of current portion, respectively, on the consolidated balance sheets. At December 31, 2016, the total note receivable was \$153,667, of which \$38,758 and \$114,909 is included in other current assets and note receivable, net of current portion, respectively on the accompanying consolidated balance sheets.

5. DEBT

Revolving Line of Credit

On May 22, 2017, the Company entered into revolving credit facility with Northwest Bank (“Northwest”) and simultaneously terminated its revolving credit facility with Silicon Valley Bank. This new agreement allows for borrowings to the lesser of (i) \$2,000,000 or (ii) 95% of the balance in the Company’s money market account less \$250,000. The borrowings are secured by the Company’s existing deposit and money market accounts with Northwest. The facility bears interest at a rate consistent with Northwest’s money market account (0.15% at June 30, 2017) plus 3%. Interest is payable monthly and the principal is due upon maturity on May 22, 2018. As of June 30, 2017, there were no amounts outstanding under this facility and unused availability under this facility was approximately \$671,000.

6. ACCRUED EXPENSES

Accrued expenses are comprised of the following:

| | June 30,2017 | December 31, 2016 |
|--------------------------------------|-------------------------|----------------------|
| Professional fees | \$109,749 | \$73,999 |
| Payroll and related | 384,583 | 310,996 |
| Severance payments to former officer | - | 91,460 |
| Other | 79,084 | 43,502 |
| | \$573,416 | \$519,957 |

7. INCOME TAXES

As of December 31, 2016, the Company had net operating loss carryforwards (NOL’s) for federal and New York state income tax purposes of approximately \$7 million. In March 2016, the Company completed an Internal Revenue Code Section 382 study which determined that a cumulative three-year ownership change in excess of 50% had occurred in March 2016 due to a share repurchase. As a result, the Company’s available NOLs were reduced from \$47.4 million at December 31, 2015 to \$2.2 million during the first quarter of 2016. There can be no assurance that the Company will realize any benefit of the NOL’s. The federal and New York state NOL’s are available to offset future taxable income and expire from 2016 through 2036 if not utilized. The Company has a full valuation allowance on its deferred tax assets since management continues to believe that it is more likely than not that these assets will not be realized.

8. SHARE BASED COMPENSATION

The Company accounts 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. These pronouncements establish 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. All stock-based compensation is included in operating expenses for the periods as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|-----------------------------------|-----------|------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Compensation cost recognized: | | | | |
| Selling, general & administrative | \$88,040 | \$360,884 | \$177,158 | \$638,357 |
| Research & development | 6,678 | 8,780 | 14,360 | 29,337 |
| | \$94,718 | \$369,664 | \$191,518 | \$667,694 |

The Company uses the Black-Scholes option pricing model to value the options. The table below presents the weighted average expected life of the options in years. The expected life computation is based on the time to option expiration. Volatility is determined using changes in historical stock prices. The interest rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

Stock option activity under the 1998, 1999, 2001, 2003, 2006 and 2015 Stock Option Plans (collectively, the “Plans”) during the periods indicated below were as follows:

| | Number of Shares Subject to Issuance | Weighted-average Exercise Price | Weighted-average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------|---|------------------------------------|---|---------------------------------|
| Outstanding at December 31, 2016 | 1,665,420 | \$ 1.40 | 3.62 years | \$2,414,446 |
| Granted | - | - | | |
| Forfeited or expired | (2,500) | 2.79 | | |
| Exercised | (10,000) | 1.01 | | |
| Outstanding at June 30, 2017 | 1,652,920 | \$ 1.40 | 3.12 years | \$4,159,931 |
| Exercisable at June 30, 2017 | 1,054,483 | \$ 1.39 | 3.10 years | \$2,655,401 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on June 30, 2017. This amount changes based upon the fair market value of the Company’s stock.

As of June 30, 2017, the Company had 887,728 shares available for future grants under the Plans.

Restricted Stock Units

The Company issues Restricted Stock Units (“RSUs”) which are equity-based instruments that may be settled in shares of common stock of the Company. During the six months ended June 30, 2017, the Company issued RSUs to certain directors as compensation. RSU agreements can vest immediately or with the passage of time. The vesting of all RSUs is contingent on continued board and employment services.

The compensation expense incurred by the Company for RSUs is based on the closing market price of the Company's common stock on the date of grant and is amortized ratably on a straight-line basis over the requisite service period and charged to general and administrative expense with a corresponding increase to additional paid-in capital.

| | Number of Shares | Weighted Average Grant Date Fair Value | Aggregate Intrinsic Value |
|----------------------------------|------------------------|---|---------------------------------|
| Outstanding at December 31, 2016 | 32,714 | \$ 1.89 | \$ 26,010 |
| Granted | 12,285 | 3.01 | - |
| Vested and settled in Shares | (16,974) | 2.42 | - |
| Outstanding at June 30, 2017 | 28,025 | \$ 2.14 | \$ 20,060 |

As of June 30, 2017, there was \$370,595 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and restricted stock units, which is expected to be recognized over a weighted average period of approximately 1.4 years.

Warrants

All previously granted warrants were issued with an exercise price that was equal to or above the fair market value of the Company's common stock on the date of grant. As of June 30, 2017, the Company had 472,801 remaining warrants outstanding and exercisable through 2021. During the six months ended June 30, 2017, there were 62,500 warrants exercised at a price of \$2.20 per share.

9. COMMON STOCK

On February 24, 2016, the Company entered into a stock repurchase agreement with two former directors, who were also members of management (the "Former Executives") for the repurchase of all 979,114 shares owned by the Former Executives of the Company's common stock for \$1,096,608. The transaction was finalized on March 4, 2016.

On June 15, 2016, the Company completed a public offering of 1,200,000 shares of its common stock and 600,000 five year warrants to purchase shares with an exercise price of \$2.20 per share, at a combined public offering of \$1.75 per share and half-warrant. Net proceeds to the Company from this offering were approximately \$1,902,000 after deducting underwriting discounts and commissions paid by the Company. As part of the offering, there was an overallotment option for the underwriters to purchase up to 180,000 shares of common stock at a purchase price of \$1.63 per share and/or up to 90,000 additional warrants at a purchase price of \$0.0001 per warrant. On June 20, 2016, the underwriters exercised their right to purchase 23,320 warrants. Direct offering costs totaling approximately \$124,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

On August 4, 2017, the Company completed a public offering of 3,625,000 shares of its common stock, offered to the public at \$2.25 per share. Net proceeds to the Company from this offering were approximately \$7,426,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs are expected to approximate \$200,000 which will be recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity. The underwriters exercised their option to purchase 543,750 additional shares which resulted in additional proceeds to the Company of approximately \$1,144,000.

10. LEGAL PROCEEDINGS

The Company is not aware of any infringement by the Company's products or technology on the proprietary rights of others.

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

11. COMMITMENTS AND CONTINGENCIES

The Company leases an office in Jericho, New York which require monthly payments of approximately \$26,000 and expires in March 2018.

On May 19, 2016, Mr. Robert Williamsen, the Company's Vice President and Chief Revenue Officer departed the Company, via mutual consent, to pursue other interests. Pursuant to Mr. Williamsen's employment agreement with the Company, Mr. Williamsen will receive a payment of his monthly salary, subject to all applicable withholdings, for a period of 12 months following May 19, 2016, which the first payment commenced on July 7, 2016, and partial reimbursement for continued health, dental, and vision coverage through August 2016. Pursuant to the terms of Mr. Williamsen's stock option agreements, Mr. Williamsen exercised his vested stock option awards.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

References made in this Quarterly Report on Form 10-Q to “we,” “our,” “us,” “Intellicheck,” or the “Company,” refer to Intellicheck, Inc.

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the six month period ended June 30, 2017. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K, for the year ended December 31, 2016. The consolidated financial statements include the accounts of Intellicheck and its wholly owned subsidiaries, Mobilisa, Inc. (“Mobilisa”) and Positive Access Corporation (“Positive Access”).

Overview

We are a leading technology solutions company that is engaged in developing, integrating and marketing threat identification, identity authentication, verification and validation technology solutions making it possible for customers to enhance the safety and awareness of their facilities and people, improve customer service, and achieve increased operational efficiencies to address a variety of challenges that include retail fraud prevention, age-restricted product sales compliance, law enforcement increased situational awareness and threat identification and prevention, and mobile and handheld access control and security for the government, military and commercial markets. Among Intellicheck's products are Retail ID[™] and Retail ID Mobile[™], the industry leading solution for preventing fraud in the retail industry that provides added value in increasing customer loyalty program and credit card application conversions; while delivering enhanced customer service; Age ID[™], a smartphone or tablet-based solution that can also be integrated in point of sale systems which provides instant identification verification and authentication solutions for applications that include the prevention of the sale of age-restricted products to minors; Law ID[™], a flexible solution for mobile devices including smartphones and tablets that is 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, and Guest ID[™], which makes hotel check-in faster, easier and more accurate by instantly authenticating an individual's ID, and automatically populating registration forms.

We continue to develop and release innovative products based upon our rich patent portfolio consisting of over 25 patents.

Critical Accounting Policies and the Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment of goodwill, valuation of intangible assets, deferred tax valuation allowances, allowance for doubtful accounts and the fair value of stock options granted under the Company's 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 and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

Goodwill

The excess of the purchase consideration over the fair value of the assets of 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 June 30, 2017. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the year ended December 31, 2016, 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. As a result of our overall financial performance, we completed 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.

As of December 31, 2016, we determined that the fair value was in excess of its carrying amount and therefore the second step of the goodwill impairment test was not required.

We determined that no events occurred or circumstances changed during the six months ended June 30, 2017 that would more likely than not reduce the fair value of the Company below its carrying amounts. We will, however, continue to monitor our stock price and operations for any potential indicators of impairment. We will conduct the 2017 annual test for goodwill impairment in the fourth quarter, or at such time where an indicator of impairment appears to exist.

Intangible Assets

Our intangible assets consist of trade names, patents and non-contractual customer relationships and as a result of a qualitative analysis, we do not believe there is any indication of impairment.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. We sell our commercial products directly through our sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed.

Under the provisions of ASC Topic 605-25, “Revenue Arrangements with Multiple Deliverables,” for multi-element arrangements that include tangible products containing software essential to the tangible product’s functionality and undelivered software elements relating to the tangible product’s essential software, we allocate revenue to all deliverables based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect the Company’s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

We also recognize revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of our technology are recognized as revenues in the period they are earned.

We also perform consulting work for other companies. These services are billed on a time and materials basis. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

We offer enhanced extended warranties for our sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to four years.

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 June 30, 2017, due to the uncertainty of the our ability to realize those assets.

Commitments and Contingencies

We are not currently involved in any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular 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 have been rounded to the nearest \$1,000)

Comparison of the three months ended June 30, 2017 to the three months ended June 30, 2016

Revenues for quarter ended June 30, 2017 increased 1% to \$951,000 compared to \$940,000 for the previous year.

| | Three months ended June 30, | | | |
|------------------|-----------------------------|-----------|--------|---|
| | 2017 | 2016 | Change | % |
| Identity Systems | \$947,000 | \$936,000 | 1 | % |
| Other | 4,000 | 4,000 | - | % |
| | \$951,000 | \$940,000 | 1 | % |

The increase in Identity Systems revenue in the second quarter of 2017 is primarily the result of higher commercial and Defense ID® sales. Total invoiced orders increased 5% to \$895,000 in the second quarter of 2017 compared to \$849,000 in the second quarter of 2016. As of June 30, 2017, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately \$40,000 compared to \$124,000 at June 30, 2016. As of December 31, 2016, our backlog was approximately \$133,000.

Our gross profit as a percentage of revenues was 78.5% for the three months ended June 30, 2017 compared to 79.6% for the three months ended June 30, 2016. The decrease in percentage is due to higher revenues on increased equipment sales that typically have a lower margin.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$681,000 or 27% to \$1,847,000 for the three months ended June 30, 2017 compared to \$2,528,000 for the three months ended June 30, 2016. This decrease is primarily due to a severance expense in the prior quarter to a former officer. We also incurred a reduction in expenses such as legal and professional fees as well as the decreased use of specialized consulting firms for certain research and development projects.

Interest and other income and interest expense was insignificant in the three month periods ended June 30, 2017 and 2016.

As further explained in Note 7, we have a net operating loss carryforward for losses generated in prior years of \$7 million and, therefore, no provision for income tax has been made for the three months ended June 30, 2017.

As a result of the factors noted above, the Company generated a net loss of \$1,099,000 for the three months ended June 30, 2017 compared to a net loss of \$1,775,000 for the three months ended June 30, 2016.

Comparison of the six months ended June 30, 2017 to the six months ended June 30, 2016

Revenues decreased by 12% to \$1,664,000 for the six months ended June 30, 2017 from \$1,891,000 for the six months ended June 30, 2016.

| | Six months ended June 30, | | |
|------------------|---------------------------|-------------|-------------|
| | 2017 | 2016 | % Change |
| Identity Systems | \$1,657,000 | \$1,884,000 | (12)% |
| Other | 7,000 | 7,000 | -% |
| | \$1,664,000 | \$1,891,000 | (12)% |

The decrease in Identity Systems revenues in the six months ended June 30, 2017, is primarily the result of lower commercial and Defense ID® sales.

Our gross profit as a percentage of revenues amounted to 81.1% for the six months ended June 30, 2017 compared to 81.2% for the six months ended June 30, 2016.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$2,073,000 or 38% to \$3,391,000 for the six months ended June 30, 2017 from \$5,464,000 for the six months ended June 30, 2016. This decrease is primarily due to a severance expense in the prior year to a former officer. We also incurred a reduction in expenses such as legal and professional fees as well as the decreased use of specialized consulting firms for certain research and development projects.

Interest and other income and expense was insignificant in both periods presented.

As further explained in Note 7, we have a net operating loss carryforward for losses generated in prior years of \$7 million and, therefore, no provision for income tax has been made for the six months ended June 30, 2017.

As a result of the factors noted above, the Company generated a net loss of \$2,035,000 for the six months ended June 30, 2017 as compared to a net loss of \$3,919,000 for the six months ended June 30, 2016.

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

As of June 30, 2017, we had cash of \$1,035,000, working capital (defined as current assets minus current liabilities) of \$885,000, total assets of \$12,733,000 and stockholders' equity of \$11,239,000.

During the six months ended June 30, 2017, we used net cash of \$2,211,000 in operating activities as compared to net cash used of \$2,625,000 in the six months ended June 30, 2016. Cash provided by investing activities was \$6,000 for the six months ended June 30, 2017 compared to cash used in investing activities of \$20,000 for the six months ended June 30, 2016. Cash provided by financing activities was \$148,000 for the six months ended June 30, 2017 compared to \$684,000 for the six months ended June 30, 2016.

On February 24, 2016, we entered into a stock repurchase agreement with two former directors, who were also members of management (the "Former Executives") for the repurchase of all 979,114 shares owned by the Former Executives of our common stock for \$1,096,608. The transaction was finalized on March 4, 2016.

On June 15, 2016, we completed a public offering of 1,200,000 shares of our common stock and 600,000 five year warrants to purchase shares with an exercise price of \$2.20 per share, at a combined public offering of \$1.75 per share and half-warrant. Net proceeds to us from this offering were approximately \$1,902,000 after deducting underwriting discounts and commissions paid by us. As part of the offering, there was an over-allotment option for the underwriters to purchase up to 180,000 shares of common stock at a purchase price of \$1.63 per share and/or up to 90,000 additional warrants at a purchase price of \$0.0001 per warrant. On June 20, 2016, the underwriters exercised their right to purchase 23,320 warrants. Direct offering costs totaling approximately \$124,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

On August 4, 2017, we completed a public offering of 3,625,000 shares of our common stock, offered to the public at \$2.25 per share. Our net proceeds from this offering were approximately \$7,426,000 after deducting underwriting discounts and commissions paid by us. Direct offering costs are expected to approximate \$200,000 which will be recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity. The underwriters exercised their option to purchase 543,750 additional shares which resulted in additional proceeds to us of approximately \$1,144,000.

On May 22, 2017, we entered into revolving credit facility with Northwest Bank ("Northwest") and simultaneously terminated our revolving credit facility with Silicon Valley Bank. This new agreement 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 Northwest's money market account (0.15% at June 30, 2017) plus 3%. Interest is payable monthly and the principal is due upon maturity on May 22, 2018. As of June 30, 2017, there were no amounts outstanding under this facility and unused availability under this facility was approximately \$671,000.

We currently anticipate that our available cash, 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 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 the Company 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.

Net Operating Loss Carry Forwards

In March 2016, we completed a study which determined that a cumulative three-year ownership change in excess of 50% had occurred in March 2016 due to a share repurchase. As a result, our available net operating loss (“NOL”) was reduced from \$47.4 million to \$2.2 million during the first quarter of 2016. Our available NOL at December 31, 2016 was approximately \$7 million. There can be no assurance that we will realize any benefit of the NOL’s. The federal and New York state NOL’s are available to offset future taxable income and expire from 2017 to 2036, if not utilized.

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 the 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 and other income and expense, impairments of long lived assets and

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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 by us may not be comparable with similarly named measures provided by other entities.

A reconciliation of GAAP net loss to Non-GAAP Adjusted EBITDA follows:

| | (Unaudited) | | | |
|----------------------------------|--------------------|---------------|------------------|---------------|
| | Three Months Ended | | Six Months Ended | |
| | June 30, | | June 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net loss | \$(1,098,553) | \$(1,775,116) | \$(2,035,310) | \$(3,918,607) |
| Reconciling items: | | | | |
| Interest and other income | (2,156) | (4,078) | (5,655) | (9,193) |
| Depreciation and amortization | 103,780 | 116,377 | 208,600 | 223,170 |
| Stock-based compensation expense | 94,718 | 369,664 | 191,518 | 667,694 |
| Adjusted EBITDA | \$(902,211) | \$(1,293,153) | \$(1,640,847) | \$(3,036,936) |

Off-Balance Sheet Arrangements

We have not entered into any off-balance sheet financing arrangements and have not 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 3. 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 in one financial institution. We perform periodic evaluations of the relative credit standing of this institution.

Item 4. 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 Quarterly Report on Form 10-Q. As of June 30, 2017, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e) and 15d-15(e), 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 Controls over Financial Reporting

There was no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the second quarter of 2017 covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Part II - Other Information

Item 1. LEGAL PROCEEDINGS

None.

Item 1A. Risk Factors

Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance.

While a significant portion of our business is with the U.S. government, our operating results may be impacted by the overall health of the North American economy. Our business and financial performance, including collection of our accounts receivable, realization of inventory, recoverability of assets including investments, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility, recession, etc.

Our operations and financial results are subject to various other risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2016 for information concerning other risks and uncertainties that could negatively impact us.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None

Item 6. Exhibits

(a) The following exhibits are filed as part of the Quarterly Report on Form 10-Q:

| Exhibit No | Description |
|------------|---|
| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a) Certification of Chief Financial Officer |
| 32 | 18 U.S.C. Section 1350 Certifications |
| 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 |

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: August 14, 2017 Intellicheck, Inc.

By: */s/ William Roof*
William Roof, PhD, MBA
Chief Executive Officer

By: */s/ Bill White*
Bill White
Chief Financial Officer
(Principal Financial and Accounting Officer)

