

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2020

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

For the transition period from _____ to _____
Commission file number 000-54545



Ipsidy Inc.

(Exact name of registrant as specified in its charter)

Delaware

46-2069547

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

670 Long Beach Boulevard
Long Beach, New York 11561
(Address of principal executive offices)

Registrant's telephone number, including area code: 516-274-8700
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Not applicable.		

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, \$.0001 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 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 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 the definitions of "large accelerated filer", "accelerated filer", "non-accelerated filer", "smaller reporting company" and "emerging growth" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's Knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

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

As of June 30, 2020, the last business day of the Registrant's most recently completed second fiscal quarter, the market value of our common stock held by non-affiliates was \$43,473,109 which is based on the average bid and ask price of such common equity, as of the last practical business day of the registrant's most recently completed second fiscal quarter of \$0.094.

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

Class	Outstanding at February 28, 2021
Common Stock, par value \$0.0001	593,952,012 shares
Documents incorporated by reference:	None

TABLE OF CONTENTS
GENERAL INFORMATION
PART I

Item 1.	Business	1
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	24
Item 2.	Properties	24
Item 3.	Legal Proceedings	24
Item 4.	Mine Safety Disclosures	24

PART II

Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	25
Item 6.	Selected Financial Data	28
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	28
Item 8.	Financial Statements and Supplementary Data	40
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	40
Item 9A.	Controls and Procedures	40
Item 9B.	Other Information	40

PART III

Item 10.	Directors, Executive Officers and Corporate Governance	41
Item 11.	Executive Compensation	46
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	51
Item 13.	Certain Relationships and Related Transactions, and Director Independence	53
Item 14.	Principal Accounting Fees and Services	55

PART IV

Item 15.	Exhibits and Financial Statement Schedules	F-1
SIGNATURES		61

FORWARD-LOOKING STATEMENTS

Certain statements discussed in Item 1 (Business), Item 1A (Risk Factors), Item 3 (Legal Proceedings), Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations), Item 7A (Quantitative and Qualitative Disclosures About Market Risk) and elsewhere in this Annual Report on Form 10-K as well as in other materials and oral statements that the Company releases from time to time to the public constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements concerning management's expectations, strategic objectives, business prospects, anticipated economic performance and financial condition and other similar matters involve significant known and unknown risks, uncertainties and other important factors that could cause the actual results, performance or achievements of results to differ materially from any future results, performance or achievements discussed or implied by such forward-looking statements. Such risks, uncertainties and other important factors are discussed in Item 1A (Risk Factors) and Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. In addition, these statements constitute the Company's cautionary statements under the Private Securities Litigation Reform Act of 1995. It should be understood that it is not possible to predict or identify all such factors. Consequently, the following should not be considered to be a complete discussion of all potential risks or uncertainties. The words "anticipate," "estimate," "expect," "project," "intend," "believe," "plan," "target," "forecast" and similar expressions are intended to identify forward-looking statements. Forward-looking statements speak only as of the date of the document in which they are made. The Company disclaims any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in the Company's expectations or any change in events, conditions or circumstances on which the forward-looking statement is based. It is advisable, however, to consult any further disclosures the Company makes on related subjects in its Quarterly Reports on Form 10-Q and Current Reports on Form 8-K filed with the Securities and Exchange Commission.

Emerging Growth Company Status

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act enacted in April 2012, and, for as long as we continue to be an "emerging growth company," we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We will remain an "emerging growth company" until the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of \$1 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective registration statement; (iii) the date on which we have issued more than \$1 billion in non-convertible debt during the prior three year period; and (iv) the date on which we are deemed to be a "large accelerated filer." We may take advantage of the extended transition period until the first to occur of the date we (i) are no longer an "emerging growth company" or (ii) affirmatively and irrevocably opt out of the extended transition period. Consequently, our financial statements may not be comparable to companies that comply with public company effective dates

PART I

Item 1. Business Overview

Ipsidy Inc. (together with its subsidiaries, the “Company”, “we” or “our”) is a provider of an Identity as a Service (IDaaS) platform that delivers a suite of secure, mobile, biometric identity solutions, available to any vertical, anywhere. In a world that is increasingly digital and mobile, our mission is to help our customers know with biometric certainty the identity of the people with whom they are engaging. We provide solutions to everyday problems: Who is applying for a loan? Who is accessing the computer system? Who is chatting with my customer service? Who is transferring funds?

Ipsidy provides secure, biometric, identity verification and electronic transaction authentication services. We have developed an IDaaS platform for our customers, be they businesses, residences, governments, or other organizations, to enable their users to more easily verify and authenticate their identity through a mobile phone or portable device of their choosing (as opposed to dedicated hardware). Our system enables participants to consent to transactions using their biometric information with a digitally signed authentication response, including the underlying transaction data. In this way our systems can provide pre-transaction authentication of identity as well as embed each user’s identity attributes, within every electronic transaction message processed through our platform, or other electronic systems.

We believe that it is essential that businesses and consumers know who is on the other side of an electronic transaction and have an audit trail, proving that the identity of the other party was duly authenticated. Our solutions are intended to provide our customers with the next level of transaction security, control and certainty. Our platform uses biometric and multi-factor identity solutions, which are intended to verify and authenticate identity during a wide variety of electronic transactions. We define “electronic transactions” in the broadest sense to include not only financial transactions (i.e. exchanges of value in all of their forms), and legal transactions (e.g. approving the release of personal or other confidential data), but also access control to both digital environments (e.g. accessing financial accounts, voting systems, email systems, healthcare records, and controlling data network log-ins) and physical environments (e.g. entrances to offices, public buildings, data centers and other sensitive locations).

The Company’s products focus on the broad requirement for identity verification and multi-factor authentication,. Organizations of all descriptions require cost-effective and secure means of mitigating identity fraud-whether that fraud takes place during a new account onboarding or an attempt to takeover an existing account by the misuse of the account holder’s personal information or access credentials. We aim to offer our customers solutions that can be integrated easily into each customer’s business and organizational operations in order to facilitate their use and enhance the end user customer experience.

Proof™ our mobile identity onboarding and verification application, establishes the trusted identity of users based on a variety of ground truth sources, such as chip-based electronic machine readable travel documents, or eMRTDs, national IDs, drivers licenses, as well as by means of direct verification by national ID databases in Peru and South Africa. The application uses these sources to obtain trusted demographic information and the reference facial biometric images that are matched against the user’s captured live selfie. Proof enables the remote onboarding of people in services associated with fintech, telecom, healthcare, government services and other online services-based industries.

Our identity authentication solution, Verified™ by Ipsidy, can be delivered seamlessly via mobile web browser, by Ipsidy’s mobile application or into a customer’s mobile app, using our SDK’s. Verified helps our customers gain identity certainty of their users (customers and employees) who can conveniently and securely consent to a variety of electronic transactions, using their biometrics. For example, we signed an agreement with a global financial services banking platform provider, which has integrated Verified to secure access to their online banking software. Ipsidy has also integrated its authentication services to allow trucking fleets and drivers to use their biometrics to securely open locks that safeguard valuable assets and physical environments.

In 2020 we added a FIDO2 strong authentication solution, AuthentifID™, developed under our strategic partnership with LoginID. AuthentifID by Ipsidy delivers trusted FIDO2 strong authentication for passwordless login and transaction authentication tied to a trusted identity. During user registration, AuthentifID leverages Ipsidy's seamless biometric identity verification service to scan an identity document and take a selfie, to establish a digital chain of trust between biometrically verified individuals, their accounts, and their devices. An international bank entered into an agreement with us to use AuthentifID in order to provide added security to users of its banking systems.

The Company's solutions for fingerprint-based identity management and electronic payment transaction processing have been in the market for several years. For example, in December 2017, we won an international competitive tender to provide our Search™ Automated Fingerprint Identification de-duplication system (AFIS) to the Zimbabwe Electoral Commission, for them to ensure that no duplicate entries existed in the voter roll for the 2018 election. The AFIS system was delivered under tight deadlines and within budget, in order to enable the voter roll to be published and the election to occur as planned.

Management believes that some of the advantages of the Company's IDaaS Platform approach are the ability to leverage the platform to support a variety of vertical markets including the identity solutions and transaction processing sectors and the adaptability of the platform to the requirements of new markets and new products requiring low cost, secure, and configurable mobile solutions. These vertical markets include but are not limited to banking and payment transactions, elections, schools, public transportation, government and enterprise security. At its core, the Company's offering, combining its proprietary and acquired biometric technologies is intended to facilitate the processing of diverse electronic transactions, be they payments, votes, or physical or digital access, all of which can include identity verification, authentication and identity transaction recording. The Company continues to invest in developing, patenting and acquiring the various elements necessary to enhance the platform, which is intended to allow us to achieve our goals.

The Company was incorporated in the State of Delaware on September 21, 2011 and changed its name to Ipsidy Inc. on February 1, 2017, and our common stock is traded on the OTCQB U.S. Market under the trading symbol "IDTY". Our corporate headquarters is located at 670 Long Beach Blvd., Long Beach, NY 11561 and our main phone number is (516) 274-8700. We maintain a website at www.ipsidy.com. The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Annual Report on Form 10-K

Global Market Opportunity

We believe that there are several market trends that drive growth in the identity verification and authentication marketplace. These trends include digital transformation and the impact of the widespread adoption of mobile technology, increased fraud as a result of that adoption and increased regulation by governments around the world to protect consumers personally identifiable information, or PII. The events of 2020 and the reaction to the global COVID-19 pandemic.

Digital Transformation

Digital and mobile technologies have significantly changed people's lives in a remarkably short time, including how we shop, socialize and bank. In 2020, the response to the COVID-19 pandemic with its stay-at-home mandates accelerated digital adoption by even the most reluctant consumers. The global health crisis dramatically altered service delivery across broad market segments, creating lasting effects that we believe are likely to stay, even after the pandemic ends.

Enterprises that were able to, scrambled to reduce reliance on physical outlets and to drive customers to remote digital channels offering seamless and secure user experiences. Electronic services—from mobile banking to online grocery shopping to tele-medicine—have increased multifold within the past year. According to a study conducted by Enterprise Technology Research of 1,200 chief information officers from across the world, the number of permanent remote workers is expected to double to 34.4% of their companies' workforces in 2021, compared with 16.4% before the coronavirus outbreak (Reuters, "*Permanently remote workers seen doubling in 2021 due to pandemic productivity: survey*" 2020).

Accordingly, digital transformation efforts that pre-dated the 2020 crisis are likely to have been prioritized and accelerated. Statista estimates that between 2020 and 2023 digital transformation investments are projected to total US\$6.8 trillion. The company also forecasts that as much as 65% of the world's gross domestic product will be digitalized by 2022. (Statista "*Spending on digital transformation technologies and services worldwide from 2017 to 2023*" 2020).

Key to successful transformation efforts is the ability to onboard new users with speed and accuracy as well as to stop identity fraud at the entrance. MarketsandMarkets, the B2B research firm, projects that the global digital identity solutions market will grow from US\$13.7 billion in 2019 to US\$30.5 billion by 2024, at a CAGR of 17.3%. The firm further predicts that the market for digital identity and document verification services, a subset of the digital identity market, offers significant potential for growth opportunities, with revenues to rise to US\$15.8 billion by 2025. (MarketsandMarkets "*Digital Identity Market*" 2020 and "*Identity Verification Market*" 2020).

The Increase in Identity Fraud

Unfortunately, with this increased demand for online services and digital convenience, organizations also face another proliferating challenge – the need to improve cybersecurity measures. Never before have criminals been able to access such vast quantities of personal information.

According to Statista, over 11,000 data breaches have occurred in the United States since 2005 with more than 1.7 billion individual records breached (Statista "*Annual number of data breaches and exposed records in the United States from 2005 to 1st half 2020*" 2021). And in the age of COVID-19, scams grew by 400% in the first quarter of 2020, making the pandemic not only a health threat but also a significant security risk. (Panda Security "*43 Covid-19 Cybersecurity Statistics*" 2020). Digital transformation efforts must address these risks.

Identity Verification Impact Across Sectors

Financial services, healthcare and government organizations are confronted by the challenges of identifying their customers, patients and benefits recipients with ease and certainty in the digital world. Governments around the world are imposing new data privacy and authentication regulations, which also impose a "call to action" for many of these businesses and organizations.

Financial Services

Financial services institutions are facing a range of digital transformation challenges and a growth in the millennial embrace of non-traditional fin-tech providers, such as peer-to-peer mobile payment apps. Key to this effort is the ability to accelerate the digital onboarding of customers—offering a convenient digital onboarding experience with real-time account opening decisions—at lower costs.

Convenience, however, traditionally opposes stronger identity assurance – the easier it is to open or access an account the less safeguards there may be to prevent fraud. Javelin Strategy & Research found that in 2019 fraud losses in the financial services industry grew 15% to \$16.9 billion, as fraudsters moved from card payments to financial accounts (Javelin Strategy & Research "*2020 Identity Fraud Report*" 2020). The study reported that account takeovers—identity theft where a criminal uses stolen credentials or data to take control of a consumer's online account—increased a staggering 72% over 2018. And with 40% of all fraudulent activity related to account takeover reported to occur within a day, the need for strong customer authentication is critical.

Experts recommend that efforts to combat this fraud must focus on moving consumers from static passwords to safer authentication methods. According to Gartner, their clients are increasingly seeking "passwordless" authentication methods such as FIDO2 Strong Authentication to improve user experience (UX) and enhance security by eliminating centrally stored passwords—a key target for cyber criminals (Gartner Research *Ibid*). Goode Intelligence believes that mobile biometrics are key to securely effecting this transformation and forecasts that over \$1.67 trillion of mobile biometric payments will be made annually by 2023, with over \$8.7 billion in annual revenue generated for suppliers of mobile biometric technology by 2023 (Goode Intelligence "*Mobile Biometrics for Financial Services; Market and Technology Analysis, Adoption Strategies and Forecasts 2018-2023*" 2019).

Healthcare

During 2020, remote healthcare services have expanded exponentially - virtual urgent-care visits spiked by 683% between March and April 2020, while virtual, nonurgent care visits grew by an unprecedented 4,345%. (Journal of the American Medical Informatics Association “*COVID-19 transforms health care through telemedicine: Evidence from the field*” 2020). ResearchAndMarkets predicts that the global telemedicine market will increase to a value of \$144.2 billion by 2030, from \$27.8 billion in 2019. (ResearchAndMarkets “*Telemedicine Market Research Report to 2030*”. 2020).

Unfortunately, with this shift to remote care, a record of weak authentication practices such as shared passwords, and a trove of rich personal data, the healthcare market is believed to be even more susceptible to identity fraud. Further, IBM reported that data breaches in the healthcare sector had the highest average cost amounting to \$7.13 million per breach amid the COVID-19 pandemic (IBM Security “*Cost of Data Breach Report 2020*” 2020).

Government Benefits

Many government agencies continue to utilize inadequate identity verification and identity authentication methods. Following the passage of the March 2020 Coronavirus Aid, Relief, and Economic Security Act (CARES Act), an unprecedented volume of criminal attacks surrounding pandemic relief efforts exposed vulnerabilities in government fraud prevention efforts.

According to USA Today, in 2020, states lost over \$36 billion to criminals filing fraudulent unemployment claims under the names of other people (USA Today “*How scammers siphoned \$36B in fraudulent unemployment payments from US*” December 30, 2020). According to State investigators, California paid out over \$400 million on 21,000 unemployment claims improperly filed using the names of California prison inmates (LA Times “*California’s prisoner unemployment fraud now estimated at \$400 million, officials say*” December 1, 2020). Much of the data used to identify claimants such as Social Security numbers has long been compromised and is available for criminal exploitation. The Federal Trade Commission (FTC), reported that in 2020 they received more than 1.4 million reports of identity theft, almost double the number received in 2019. Furthermore, the FTC reported more than 30% of those reports were attributed to misuse of personal identity in applying for a government benefit, a significant increase from 2019 when only 3% of fraud was attributed to this reason. (FTC Press Release “*New Data Shows FTC Received 2.2 Million Fraud Reports from Consumers in 2020*” February 4, 2021)

With these statistics in mind, Congress included new provisions to combat grifters when they rolled out a second COVID-19 stimulus package under the Consolidated Appropriations Act of 2021. Section 242 of the new Act mandates that State agencies verify the identity of eligible applicants for pandemic unemployment assistance. The Act also provides federal funding to state agencies to implement new identity proofing measures.

The FIDO Alliance – The Mission To Eliminate Passwords

The reliance on passwords has long been acknowledged as highly frustrating for users, costly for organizations to maintain and reset quickly, as well as one of the weakest security practices for user authentication. The reuse of the same passwords by individuals across multiple sites, the massive data breaches targeting user credentials, and widespread phishing efforts by hackers to entice users to ‘reveal’ passwords creates security risks for every organization.

The FIDO (Fast Identity Online) Alliance was formed in 2012 to address the security risks to enterprises and the problems individual users face in creating and remembering multiple usernames and passwords. FIDO compliant solutions eliminate passwords by using the combination of biometric verification and device authentication via cryptographic security, thereby speeding up and securing user login. FIDO Alliance members include global leaders and household names in technology and across enterprise software, payments, banking, telecom, ecommerce, identity, government, and healthcare (<https://fidoalliance.org/members/>). This cross-industry coalition works jointly to develop interoperable authentication standards that reduce reliance on passwords with authentication that is more secure, private, and easier to use.

The Global Unbanked Population

The World Bank estimates that approximately 1.7 billion adults, representing 31% of the global adult population, are “unbanked” as of 2017, meaning they have no record of credit, or have no account with a financial institution or a mobile money service. (The World Bank “*Global Findex Database 2017*” 2017). The World Bank’s Identification for Development (ID4D) initiative also estimates that more than 1 billion people worldwide do not have basic ID credentials, with many more people who have poor quality IDs that cannot be trusted or reliably verified. The ID4D initiative aims to provide everyone on the planet with a legal identity by 2030. The majority of the population sets reside in Sub-Saharan Africa and Asia. (The World Bank “*Inclusive and Trusted Digital ID Can Unlock Opportunities for the World’s Most Vulnerable*” 2019)

The widespread adoption of mobile phones and access to the internet, estimated at over 79% of adults in developing economies, continue to increase opportunities for leveraging digital identity services and online financial services to these populations (The World Bank *Ibid*).

Privacy Regulations

All business, governmental and other sectors of society are impacted by the need for organizations to comply with increasing data privacy and authentication regulations. The European Union has lead the way with its General Data Protection Regulation, or GDPR, widely considered the gold standard of data privacy regulation, and other jurisdictions around the world are scrambling to catch up. The United States has been slow and has only limited regulation at the Federal Level, which applies only to specific industries such as the Health Insurance Portability and Accountability Act, or HIPAA. It is therefore falling to the States and local authorities to adopt data privacy requirements such as the California Consumer Privacy Act or CCP and Illinois’ Biometric Information Privacy Act or BIPA, which are being cloned by other jurisdictions. We believe that this growing trend will impose an urgency on organizations of all descriptions to improve their data security and privacy processes, and we believe that biometric identity verification will be a key part of the solution.

Our Solutions and Products

The Company has established its Identity as a Service Platform with internally developed software as well as acquired and licensed technology, which provide solutions for the following services: (1) biometric capture and matching (e.g. for finger prints, or facial recognition); (2) remote document collection and authentication; (3) multi-factor authentication; (4) access control comprising out of band identity and transaction authentication for virtual as well as physical environments; and (5) electronic transactions (e.g. payment transactions).

Identity as a Service (IDaaS) Platform Solutions

Ipsidy’s customers can leverage our IDaaS Platform by using an Ipsidy out-of-the-box identity solution or by a custom integration. The solutions suite includes a full-range of developer integration tools and documentation that help our customers create their own identity and transaction authentication solutions via integration to our RestFul API’s. Our platform is designed to support a wide variety of identity and electronic transactions across a broad range of verticals. Our technical implementation team can assist our customers to configure our platform, mobile biometric identity authentication services and our AFIS to meet a specific commercial, geographic or market need and to provide the next level of transaction security, control and certainty for everyday transactions. We also make certain services available without integration. The Company has the following product lines that are part of our IDaaS platform capabilities:

- **PROOF™** establishes the trusted identity of users based on a variety of ground truth sources, including chip based electronic machine readable travel documents, or eMRTDs, national IDs, drivers licenses, as well as through direct verification by national ID databases. Using government issued identity documents, Proof can biometrically match the reference picture of the document with a live user’s selfie. This solution can eliminate the need for costly face-to-face, in-person ID checks and request a verified identity in seconds. In a world of increasing fraud and security threats, Proof offers our customers confidence in the identities of prospective customers, employees or visitors.

- **VERIFIED™** –Our out-of-band, multi-factor authentication solution, which is designed to provide any bank, insurer, enterprise or government department a secure, convenient application for universal identity verification and transaction consent and authentication before or as part of any type of electronic transactions. Integration to the Ipsidy platform allows customers to develop a custom biometric authentication solution that meets their needs. The Ipsidy RESTful APIs provide a simple and secure way to access our IDaaS Platform. Users can authenticate their identity through a mobile phone or portable device of their choosing (as opposed to dedicated hardware). The solution includes a detailed audit trail created for each transaction, containing the digitally signed transaction details with proof of identity authentication and consent.
- **AUTHENTIFID™** delivers trusted FIDO2 strong authentication for passwordless login and transaction authentication tied to a trusted identity. During user registration, AuthentifID leverages Ipsidy’s seamless biometric identity verification service to scan an identity document and take a selfie, to establish a digital chain of trust between biometrically verified individuals, their accounts, and their devices. AuthentifID eliminates password vulnerabilities and stops phishing attacks and thereby protects users and systems against account takeovers, sim swap attacks, and man-in-the-middle attacks. The service can reduce operational costs of complex password resets and increase customer satisfaction by getting rid of often forgotten or detectable secret questions. AuthentifID enables customers to use biometric authentication with any FIDO2 registered device. Payment organizations can more easily meet PSD2 payment regulations for strong authentication and AuthentifID can help all organizations comply with applicable privacy laws.
- **IDENTITY - PORTAL** Allows an enterprise to enroll customers simply using the Ipsidy portal, without any integration. The IDENTITY– PORTAL biometrically authenticates the identity of their customer *as well as* authorizes everyday transactions using the caller’s enrolled mobile device.
- **ACCESS™** by Ipsidy offers an immediate solution for biometric authentication of individuals seeking entry into a building or controlled area, using Bluetooth beacons to trigger the identity event. The Access solution also offers the ability to issue and schedule digital passes, and a Concierge application provides the building management the ability to monitor employee, resident or visitor access flow as well as perform event exception processing.
- **TIME™** by Ipsidy is a mobile, biometric attendance app with geolocation. Organizations can easily identify and manage team members across multiple worksites and geographic locations. Employees use a convenient mobile app to track when they’re on the clock or on location. When they check in or out, employees confirm their identity by taking a biometric selfie. The date, time and geolocation are automatically recorded so there’s no need for expensive time clocks and it’s ideal for a mobile, global workforce.

Other Identity Products

- **SEARCH™** Our biometric matching software, comprising front-end application software for desktop fingerprint capture, and image processing as well as a back-end fingerprint matching software solution using our own proprietary algorithms and includes an identity management system SEARCH has been successfully used for public elections in Africa, as well as for a governmental application in the United States.
- **CARDPLUS** Secure plastic identity credentials and loyalty card products, currently being sold in Africa. Opportunities exist to expand the product offering.

Payment Processing

Payment Gateway and Kiosks

- **TRANXA™** Multi-application payment gateway and switch that provides payment solutions for online retailers and physical merchant locations, currently being offered in Colombia. The gateway functionality includes some support for EMV (global standard for credit and debit cards based on chip card technology) credit card acceptance, cash or credit based bill pay services and cash or credit based pre-paid top-up services for cellular operators. In addition, Tranxa can electronically transfer funds between locations of licensed network operators. The Tranxa gateway platform operates in Colombia and powers the Company's bill payment and money transmission services for customers of the Colombian Post Office 4/72. The platform also supports what is referred to in Colombia as "correspondent banking", meaning the provision of cash deposit taking, bill payments and certain other services by remote non-bank locations, thereby extending financial inclusion to more remote and low-income areas, both in Colombia and elsewhere in the region.
- An unattended kiosk application and backend management system, which when integrated with a transit ticketing system, facilitates fare collection and electronic ticketing for transit systems.

Modular Mobile Authentication and Authorization Platform

- Our TRANSACT mobile digital issuance platform, has been developed to support, amongst other things, the issuance and management of closed loop pre-paid accounts (for both physical and virtual cards), an integrated mobile wallet application and consumer loyalty program, a tokenization application with HCE (software architecture that provides exact virtual representation of various electronic identity cards) and an open and closed loop merchant acquiring capability, integrated to our payment gateway and mobile point-of-sale, or MPos application. The platform is multi-lingual and capable of being white labelled for our customers. This is intended to offer a secure and inexpensive solution for conducting electronic transactions, including identity transactions, merchant and peer-to-peer payments. This platform also supports and is integrated with certain aspects of our IDaaS platform.
- Our digital mobile wallet application, or electronic account holder is used to contain different services and accounts that can be easily added to effect a variety of transactions. They are intended to take advantage of the potential network effects arising from the successful broadening of our customer base.

Growth Strategy

We seek to extend our position and execute our business plan by continuing to penetrate our existing markets and expand into new geographies and market segments. Our goal is to continue to deliver innovative security and payment services to our customers that help them achieve their operational or business goals. The execution of our strategy is subject to our obtaining sufficient additional working capital to finance the various initiatives discussed, whether through investment or otherwise. The key components of our strategy are discussed below.

Add new customers

The Company plans to grow its core business through focused sales and marketing of its products and solutions. Our sales, marketing and product professionals are developing additional distribution channels and seeking out new customers. We are leveraging our internal personnel with resellers, agents and distribution partners, who generally are focused on a particular industry vertical and have an existing customer base to which they can offer our products, in addition to their existing lines. Some of the industry sectors covered by our resellers include financial institutions, e-commerce merchants, and logistics. These resellers enable us to target a significantly larger customer base, while maintaining a lower overhead of our own FTE's sales personnel. We are also dealing directly with potential customers in response to our digital marketing efforts.

Channel Strategy

The Company believes that its channel strategy will be an effective way to bring its products and solutions to a broad market in an efficient and cost-effective way. We have signed and are pursuing channel partners, that play a key role in their respective verticals, such as Temenos, a technology provider for banks, Atos, a global leader in digital transformation and Inetum (formerly IECISA gfi) which has a focus on the telecom and financial services industries globally (among others) . These channel partners provide access to their customers, who in turn work with many thousands of individual consumers and businesses all of whom could benefit from the use of our solutions. By entering into agreements with such channel partners and leveraging their relationships, we believe we can expand our footprint much more rapidly and cost effectively, as compared to pursuing separate agreements with each customer.

Enter new markets

The Company has already entered new markets by virtue of our subsidiaries in Colombia, Peru and South Africa. The Company believes that the solutions that are currently being offered and developed in those countries will be suitable to be similarly offered in other emerging markets in the Latin American and African regions. The Company also recently signed an agreement with a leading IT consulting and business process services company in India. Furthermore, the improvements to the Company's platforms and the expansion of the sales teams are being undertaken with a view to being able to support transaction processing and customers across borders without the need to establish and build new facilities in each new country, thereby reducing the costs of entry into each new market.

Innovation

As the electronic and cybersecurity industry continues to evolve, we aim to be at the forefront by developing new services and solutions that leverage our platform and core competencies and thereby enable us to enter new markets, attract new customers and retain existing ones. We also believe it will be critical to our growth for us to continue to enhance our platform capabilities. For example in 202 we signed an agreement with LoginID, under which we have jointly developed a FIDO2 compliant strong authentication solution, which we offer as AuthentifID. We also became a member of the FIDO Alliance, the leading international organization comprising global leaders in technology that help establish best practices for FIDO authentication deployment. We believe the development of new services and solutions will be an important revenue source in the future and enable us to continue to differentiate our platform and capabilities. The Company believes that by using our core technologies we will be able to create solutions that address some of today's major global market challenges and opportunities arising in identity solutions and access control, coupled with the ubiquitous use of mobile devices. By combining our core technologies, we have built an IDaaS platform using biometric and multi-factor identity solutions, which are intended to support a wide variety of electronic transactions.

Select Acquisitions

As we have done in the past, we intend to selectively pursue acquisitions that will help us achieve our strategic goals, enhance our technology capabilities and accelerate growth. We believe pursuing these types of acquisitions will increase our ability to work with existing customers, add new customers, enter new markets, develop new services and enhance our processing platform capabilities. However, we have no commitments with respect to any such acquisitions at this time.

Marketing and Sales

The Company is focusing its sales activities in the Fintech, Telecom, and Logistics verticals due to their increased demand for remote online transactions. The sales teams are concentrated in the Latam, MEA, and US regions representing what we believe to be the markets with the greatest growth potential for identity transaction services. The marketing team is tasked with the continued sharpening of our external brand messaging to help focus the mission, sales strategy and product development as the Company strives to reach target markets and customers. The objective is to produce industry-specific marketing assets that highlight our platform, solutions, and their role in digital transformation.

The Marketing, Sales, and Product Development and Customer Success teams are collaborating closely to develop products that our target customers need and want and to convert prospects into new customers with simplified on-boarding and strong authentication experiences. The Sales and Marketing Teams are also focusing on driving sales and new revenue by developing, attracting, and supporting a partner network of resellers and technology integrators.

Revenue Model

Identity Management Solutions and Products

The biometric software products are priced based on a multi-year licensing model which is driven by the number of enrollees in the system. The Company provides its new IDaaS platform services based on a subscription model, with tiered fees per enrolled user, or device, comprising an initial enrollment fee, a periodic subscription and where applicable a per transaction fee. The Company's CardPlus plastic and credentials card products are sold at a per unit price which will vary based on the configuration of the features and functionality of the product, as well as the services provided.

Payment Processing Solutions and Products

The electronic payment gateway services are volume priced on a per transaction basis. The pricing for the Company's new closed loop financial payment platform is expected to be based on a combination of transaction fee and a subscription model based on numbers of cardholders and merchants enrolled. The Company also earns leasing income from the rental of unattended kiosks.

Competition

The Company has created an IDaaS platform allowing it to on-board customers who wish to deploy Ipsidy's services and solutions in order to know with biometric certainty who is engaging with them. Ipsidy's solutions include the ability to verify the identity of a user, via remote identity proofing, then enable digital access, as well as transaction and device authentication, all digitally signed by the user's identity. The Company's platform utilizes commodity, consumer grade mobile devices for customer deployment with users engaging the platform via a web-browser or corresponding Android or iOS smartphone app.

The Company also offers certain payment processing solutions and smart card products manufacturing and printing. The industry sectors in which these products compete are characterized by rapid change and new entrants. The Company will need to consistently develop and improve its products in order to remain competitive.

In reviewing the competitors that exist for the Company's current and planned products and platform services relating to biometric identity solutions, the Company considers a number of factors. Ipsidy's platform approach offers an Identity as a Service (IDaaS) approach which seeks to combine a number of different elements into a single platform. Ipsidy believes that its full stack platform is exceptional in that it provides a combination of SaaS based documentary identity verification, FIDO device authentication, and identification services which cover digital account access and transaction confirmation use cases. The competitive landscape includes several companies that mainly address only one or other area, with some addressing multiple areas independently. However, it is believed that some companies are attempting to create combined identity offerings, similar to Ipsidy's.

In looking at our competition, the Company does not consider providers who do not offer a consumer application solution for smartphones, such as the Ipsidy App. Neither do we consider competitors, which are major conglomerates with vertically integrated cybersecurity companies, due to the vast array of services which they offer. Furthermore, some of the competitors which do offer solutions for digital use cases, are major legacy providers offering hardware heavy solutions principally for governmental users. These include IDEMIA, Thales, and Supercom. This is in contrast to Ipsidy's IDaaS approach which is based on offering app and browser-based solutions which are usable on mobile devices with minimal hardware requirements. Furthermore, our identity solutions are designed to address the requirements of private, commercial and governmental uses for enrolled users.

To further analyze the competitive landscape, the market must be segmented into authentication solution vendors and biometric identification & verification solution vendors. Major competitors offering solutions in both areas include IDEMIA, Thales, HID Global, and Aware. Major competitors offering only authentication, include Twillio/Authy, HYPR, Datacard, Duo, Daon, Ping Identity, Callsign, and Trusona. Companies offering only biometric identification & verification include NEC, Imageware, Element, and Aware.

The Ipsidy IDaaS platform is based on a patent-pending methodology, which combines digital signature authentication and biometric identity verification into a single out-of-band transaction. This provides functionality for our users to have real-time control over their electronic transactions and every-day events through a mobile application, with a detailed audit trail created for each event, containing the digitally signed transaction details and biometric identity of the user. This patent-pending approach of combining transaction details and identity into a single, digitally signed message could allow the Ipsidy platform to be a complimentary solution to many of its competitors and hence differentiate itself in the market.

Companies that focused on offerings for ID proofing, include Jumio, InCode, Au10Tix, OnFido, Clear, Mitek and Acuant. Companies that provide a single solution may be seeking to combine with authentication and biometric verification technology providers to expand their ID proofing solutions' capabilities. The Ipsidy platform offers its own document based identity verification service for use in digital onboarding solutions, in conjunction with our device authentication and biometric verification solutions.

Another aspect of the competitive landscape for platform service arises from market demand for SaaS based identity services that are both high assurance and low friction. This combination is the ideal balance that Ipsidy and its competitors are trying to achieve. Companies that are believed to be competing with Ipsidy with their offerings today are Thales, Jumio, OnFido, Acuant, Incode, Au10Tix, and IDEMIA (Formerly Morpho and Obertur). In addition, Ipsidy offers its customers the flexibility to adapt its solutions to their specific use cases for either high assurance or to decrease friction.

There are new entrants into each of these markets continually. Each competitor may have a different offering or approach to solve similar problems, which overlap with those of the Company. Some competitors also include manufacturers who provide systems, or platform solutions to third party operators and, therefore, do not directly compete with the Company, which operates its own systems.

The Cards Plus business faces competition both locally in South Africa and internationally. China has become a source of imports of card products at highly competitive pricing and some local suppliers are reliant on Chinese card manufacturers. Local competitors include Card Technology Services, Easy Card and Open Gate, Cardz Group and XH Smart Technology (Africa). That said, we believe that we are the only significant manufacturer in South Africa using digital print technology.

The payment processing industry has many competitors who provide gateway services, closed loop end-to-end solutions, payment processing, peer-to-peer payments and bill payments. As these types of services are usually supplied by regional or country specific companies, the following summary of this competitive landscape, is focused on those countries or regions the Company is actively pursuing business in today. In Colombia and elsewhere in Latin America where the Company is focused, major competitors include PayU, Credibanco, Redeban, Mercado Pago, Nequi, and QPagos. Some of these companies may on the other hand be potential customers for our identify transaction platform and biometric authentication services. Companies in this region that also compete in those sectors include Veritran, Certicamaras, Olimpia IT, Evertec-Processa and Indra.

Governmental Regulations

The Company does not need or require any approval from government authorities or agencies in order to operate its regular business and operations. However, it is possible that any proposed expansion to the Company's business and operations in the future would require government approvals.

Due to the security applications and biometric technology associated with the Company's products and platforms, the activities and operations of the Company are subject to license restrictions and other regulations, such as (without limitation) export controls and other security regulation by government agencies. Expansion of the Company's activities in payment processing may in due course require government licensing in different jurisdictions and may subject it to additional regulation and oversight.

Data protection legislation in various countries in which the Company does business (including Colombia and the United Kingdom) may require it to register its databases with governmental authorities in those countries and to comply with additional disclosure and consent requirements with regard to the collection, storage and use of personal information of individuals resident in those countries. In addition, a new privacy law took effect in California at the beginning of 2020, and in Maine in July 2020, and other states are considering additional regulations. Specifically, several states are considering adopting a Biometric Information Privacy Act, or BIPA modelled on the Illinois statute, which governs the collection, processing, storage and distribution of biometric information such as facial biometric templates and fingerprints. Several of these new statutes give individuals rights of action to sue violators, which have resulted in a number of class action law suits. These regulations could have a significant impact on our businesses.

Human Capital - Employees and Organization

The Company, as of December 31, 2020, had a total of approximately 60 employees that are located in four countries: Colombia, South Africa, the United Kingdom and the United States as well as outsourced service providers. There are approximately 17 employees in the United States that provide overall Company strategic, business and technological leadership. Employees in the U.S. receive health benefits on a cost sharing basis and employees in Colombia and South Africa are provided the respective Government required benefits. The Company may enhance or offer additional fringe and welfare benefits in the future as the Company's profits grow and/or the Company secures additional outside financing.

Subsidiaries

Currently, the Company has three U.S. subsidiaries: Innovation in Motion Inc., Fin Holdings, Inc., and ID Solutions Inc. The Company has three subsidiaries in Colombia: MultiPay S.A.S., IDGS LATAM S.A.S., and IDGS S.A.S.. The Company has one subsidiary in South Africa: CardsPlus Pty Ltd. The Company has one subsidiary in the United Kingdom: Ipsidy Enterprises Limited and a subsidiary in Peru, Ipsidy Perú, SAC. The Company is the sole shareholder of all of its subsidiaries.

Item 1A. Risk Factors

We have a history of losses and we may not be able to achieve profitability going forward.

We have an accumulated deficit of approximately \$98.2 million as of December 31, 2020 and incurred an operating loss of approximately \$9.0 million for the year ended December 31, 2020. We have had net losses in most of our quarters since our inception. We expect that we will continue to incur net losses in 2021. We may incur losses in the future for a number of reasons, including the other risks described in this report, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events. Accordingly, we may not be able to achieve or maintain profitability. Our management is developing plans and executing certain programs to alleviate the negative trends and conditions described above, however there is no guarantee that such plans will be successfully implemented. Our ability to curtail our operating losses or generate a profit may be further impacted by the fact that our business plan is largely unproven. There is no assurance that even if we successfully implement our business plan, that we will be able to curtail our losses. If we incur significant additional operating losses, our stock price may decline, perhaps significantly and the Company will need to raise substantial additional capital in order to be able to continue to operate, which will dilute the existing stockholders and such dilution may be significant. Additional capital may not be available on terms acceptable to the Company, or at all.

We have yet to achieve positive cash flow and, given our projected funding needs, our ability to generate positive cash flow is uncertain.

We have had negative cash flow from operating activities of approximately \$4.7 million and approximately \$6.0 million for the years ended December 31, 2020 and 2019, respectively. We anticipate that we will continue to have negative cash flows from operating activities for the foreseeable future as we expect to incur increased research and development, sales and marketing, and general and administrative expenses. Our business will require significant amounts of working capital to support our growth, particularly as we seek to introduce our new offered products. An inability to generate positive cash flow from operations may adversely affect our ability to raise needed capital for our business on reasonable terms, if at all. It may also diminish supplier or customer willingness to enter into transactions with us, and have other adverse effects that may impact our long-term viability. There can be no assurance we will achieve positive cash flows in the foreseeable future.

We need access to additional financing, which may not be available to us on acceptable terms, or at all. If we cannot access additional financing when we need it and on acceptable terms, our business, prospects, financial condition, operating results and ability to continue as a going concern will be adversely affected.

Our growth-oriented business plan to offer products to our customers will require continued capital investment. Our research and development activities will also require continued investment. We raised approximately \$8.2 million and \$3.3 million in 2020 and 2019, respectively, through equity and debt financing at varying terms. In order to implement and grow our operations through December 31, 2022, achieve an expected annual revenue stream from our products and repay our outstanding convertible debt obligations (\$7.6 million) in February 2022 we expect that we will need to raise between \$14 and \$16 million dollars. See Note 7 of the Consolidated Financial Statements for additional information with respect to conversion options or the respective convertible noteholders. There is no guarantee that our current business plan will not change, and as a result of such change, we will need additional capital to implement such business plan. Further, assuming we achieve our expected growth plan, of which there is no guarantee, we will need additional capital to implement growth beyond our current business plan.

Our limited operating history makes it difficult for us to evaluate our future business prospects and make decisions based on those estimates of our future performance.

We have been an emerging growth company since beginning operations. We have a limited operating history and have generated limited revenue. As we look to further expand our existing products it is difficult, if not impossible, to forecast our future results based upon our historical data. Because of the uncertainties related to our lack of historical operations, we may be hindered in our ability to anticipate and timely adapt to increases or decreases in revenues or expenses. If we make poor budgetary decisions as a result of unreliable historical data, we could be less profitable or incur losses, which may result in a decline in our stock price.

There can be no assurance that we will successfully commercialize our products that are currently in development or that our existing products will sustain market acceptance.

There is no assurance that we will ever successfully commercialize our platform and related solutions that are under development or that we will experience market reception for our products in development or increased market reception for our existing products. Although our acquisitions have generated revenue, there is no guarantee that we will be able to successfully implement our new products utilizing the acquired technology, products, and customer base. There is no assurance that our existing products or solutions will achieve market acceptance or that our new products or solutions will achieve market acceptance. Further, there can be no guarantee that we will not lose business to our existing or potential new competitors.

We depend upon key personnel and need additional personnel.

Our success depends on the continuing services of Philip Kumnick, CEO, Philip Broenniman, COO, as well as certain other members of the current management team. Our executive team are incentivized by stock compensation grants that align the interests of investors with the executive team and certain executives have employment retention agreements. The loss of key management, engineering employees or third-party contractors could have a material and adverse effect on our business operations. Additionally, the success of our operations will largely depend upon our ability to successfully attract and maintain competent and qualified key management personnel. As with any company with limited resources, there can be no guarantee that we will be able to attract such individuals or that the presence of such individuals will necessarily translate into profitability for our company. If we are successful in attracting and retaining such individuals, it is likely that our payroll costs and related expenses will increase significantly and that there will be additional dilution to existing stockholders as a result of equity incentives that may need to be issued to such management personnel. Our inability to attract and retain key personnel may materially and adversely affect our business operations. Any failure by our management to effectively anticipate, implement, and manage personnel required to sustain our growth would have a material adverse effect on our business, financial condition, and results of operations.

The market for our products is characterized by changing technology, requirements, standards and products, and we may be adversely affected if we do not respond promptly and effectively to these changes.

The market for our payment processing and identity management products is characterized by evolving technologies, changing industry standards, changing political and regulatory environments, frequent new product introductions and rapid changes in customer requirements. The introduction of products embodying new technologies and the emergence of new industry standards and practices can render existing products obsolete and unmarketable. Our future success will depend on our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of our customers. In the future:

- we may not be successful in developing and marketing new products or product features that respond to technological change or evolving industry standards;
- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products and features; or
- our new products and product features may not adequately meet the requirements of the marketplace and achieve market acceptance.

If we are unable to respond promptly and effectively to changing technologies and market requirements, we will be unable to compete effectively in the future.

There can be no assurance that we will successfully identify new product opportunities and develop and bring new products to market in a timely manner, or that the products and technologies developed by others will not render our products or technologies obsolete or noncompetitive. The failure of our new product development efforts could have a material adverse effect on our business, results of operations and future growth.

If our technology and solutions cease to be adopted and used by government and public and private organizations, we may lose some of our existing customers and our operations will be negatively affected.

Our ability to grow depends significantly on whether governmental and public and private organizations adopt our technology and solutions as part of their new standards and whether we will be able to leverage our expertise in governmental solutions into commercial solutions. If these organizations do not adopt our technology, we may not be able to penetrate some of the new markets we are targeting, or we may lose some of our existing customer base.

In order for us to achieve our growth objectives, our identity management technologies and solutions must be adapted to and adopted in a variety of areas including, among others, physical access control, computer access control, biometric fingerprint matching and identity card issuance and verification. Further, our payment processing technologies and solutions will need to be adopted by financial institutions, merchants and consumers.

We cannot accurately predict the future growth rate, if any, or the ultimate size of these markets. The growth of the market for our products and services depends on a number of factors such as the cost, performance and reliability of our products and services compared to the products and services of our competitors, customer perception of the benefits of our products and solutions, public perception of the intrusiveness of these solutions and the manner in which organizations use the information collected, customer satisfaction with our products and services and marketing efforts and publicity for our products and services. Our products and services may not adequately address market requirements and may not gain wide market acceptance. If our solutions or our products and services do not gain wide market acceptance, our business and our financial results will suffer.

We have sought in the past and will seek in the future to enter into contracts with governments, as well as state and local governmental agencies and municipalities, which subjects us to certain risks associated with such types of contracts.

Most contracts with governments or with state or local agencies or municipalities, or Governmental Contracts, are awarded through a competitive bidding process, and some of the business that we expect to seek in the future will likely be subject to a competitive bidding process. Competitive bidding presents a number of risks, including:

- the frequent need to compete against companies or teams of companies with more financial and marketing resources and more experience than we have in bidding on and performing major contracts;
- the substantial cost and managerial time and effort necessary to prepare bids and proposals for contracts that may not be awarded to us;
- the need to accurately estimate the resources and cost structure that will be required to service any fixed-price contract that we are awarded; and
- the expense and delay that may arise if our competitors protest or challenge new contract awards made to us pursuant to competitive bidding or subsequent contract modifications, and the risk that any of these protests or challenges could result in the resubmission of bids on modified specifications, or in termination, reduction or modification of the awarded contract.

We may not be afforded the opportunity in the future to bid on contracts that are held by other companies and are scheduled to expire, if the governments, or the applicable state or local agency or municipality determines to extend the existing contract. If we are unable to win particular contracts that are awarded through the competitive bidding process, we may not be able to operate in the market for the products and services that are provided under those contracts for a number of years. If we are unable to win new contract awards or retain those contracts, if any, that we are awarded over any extended period, our business, prospects, financial condition and results of operations will be adversely affected.

In addition, Governmental Contracts subject us to risks associated with public budgetary restrictions and uncertainties, actual contracts that are less than awarded contract amounts, the requirement for posting a performance bond and the related cost and cancellation at any time at the option of the governmental agency. Any failure to comply with the terms of any Governmental Contracts could result in substantial civil and criminal fines and penalties, as well as suspension from future contracts for a significant period of time, any of which could adversely affect our business by requiring us to pay significant fines and penalties or prevent us from earning revenues from Governmental Contracts during the suspension period. Cancellation of any one of our major Governmental Contracts could have a material adverse effect on our financial condition.

Governments may be in a position to obtain greater rights with respect to our intellectual property than we would grant to other entities. Governmental agencies also have the power, based on financial difficulties or investigations of their contractors, to deem contractors unsuitable for new contract awards. Because we will engage in the government contracting business, we will be subject to additional regulatory and legal compliance requirements, as well as audits, and may be subject to investigation, by governmental entities. Compliance with such additional regulatory requirements are likely to result in additional operational costs in performing such Governmental Contracts which may impact our profitability. Failure to comply with the terms of any Governmental Contract could result in substantial civil and criminal fines and penalties, as well as suspension from future contracts for a significant period of time, any of which could adversely affect our business by requiring us to pay the fines and penalties and prohibiting us from earning revenues from Governmental Contracts during the suspension period.

Furthermore, governmental programs can experience delays or cancellation of funding and suspension of appropriations for example as occurred with the recent partial United States government, which can be unpredictable; this may make it difficult to forecast our revenues on a quarter-by-quarter basis.

We rely in part on third-party software to develop and provide our solutions.

We rely in part on software licensed from third parties to develop and offer some of our solutions. Any loss of the right to use any such software or other intellectual property required for the development and maintenance of our solutions, or any defects or other issues with such software could result in problems or delays in the provision of our solutions until equivalent technology is either developed by us, or, if available from others, is identified, obtained, and integrated, which could harm our business.

In addition, the recent emergence of a coronavirus disease (COVID - 19) could impact any or all of the third party providers and suppliers on whom we rely. While the full impact of this disease and worldwide reaction to it are largely unknown, any disruption of such providers and suppliers caused by this disease could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

We have historically depended upon a small number of large system sales ranging from \$100,000 to \$2,000,000 and we may fail to achieve one or more large system sales in the future, or fail to successfully transition to new products generating recurring revenues.

Historically, we have derived a substantial portion of our revenues from a small number of sales of large, relatively expensive systems, typically ranging in price from \$100,000 to \$2,000,000. If we fail to receive orders for these large systems in a given sales cycle on a consistent basis, our business could be significantly harmed. We are trying to reduce such dependence by developing a range of products and solutions, which are in a lower price range and intended to generate recurring revenue from a large number of customers. The Company has invested heavily in developing and launching such products but there is no guarantee that such efforts will be successful and that a satisfactory return on such investment will be achieved. Further, our quarterly results are difficult to predict because we cannot predict in which quarter, if any, large system sales will occur in a given year, nor when (if at all), or at what rate the ramp in sales of new products will occur. As a result, we believe that quarter-to-quarter comparisons of our results of operations are not a good indication of our future performance. In some future quarters, our operating results may be below the expectations of securities analysts and investors, in which case the market price of our Common Stock may decrease significantly.

Our efforts to expand our international operations are subject to a number of risks, any of which could adversely reduce our future international sales and increase our losses.

Most of our revenues to date are attributable to sales and business operations in jurisdictions other than the United States. Our international operations could be subject to a number of risks, any of which could adversely affect our future international sales and operating results, including:

- trade restrictions;
- export duties and tariffs;
- export regulations or restrictions including sanctions;
- uncertain political, regulatory and economic developments;
- labor and social unrest;
- inability to protect our intellectual property rights;
- highly aggressive competitors;
- currency issues, including currency exchange risk;
- difficulties in staffing, managing and supporting foreign operations;
- longer payment cycles; and
- increased collection risks;
- impact of the Coronavirus;

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulty in collecting receivables, and a higher cost of doing business, any of which could adversely affect our business, results of operations or financial condition.

We are exposed to risks in operating in foreign markets, which may make operating in those markets difficult and thereby force us to curtail our business operations.

In conducting our business in foreign countries, we are subject to political, economic, legal, operational and other risks that are inherent in operating in other countries. Risks inherent to operating in other countries range from difficulties in settling transactions in emerging markets to possible nationalization, expropriation, price controls and other restrictive governmental actions. We also face the risk that exchange controls or similar restrictions imposed by foreign governmental authorities may restrict our ability to convert local currency received or held by us in their countries into U.S. dollars or other currencies, or to take those dollars or other currencies out of those countries.

It is possible that countries in which we do or intend to do business, or companies and their principals become subject to sanctions under U.S. law. This would prevent us from doing business with those countries or with those entities or individuals. The Company could be exposed to fines and penalties in the event of breach any applicable sanctions legislation or orders. In addition, the Company might be required to suspend or terminate existing contracts in order to comply with such sanctions legislation or orders, which would adversely impact our future revenues and cashflows.

Additionally, we are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws in the United States and elsewhere that prohibit improper payments or offers of payments to foreign governments and their officials and political parties for the purpose of obtaining or retaining business. We have operations in and deal with governments and officials in foreign countries. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, contractors or customers that could be in violation of various laws, including the FCPA, even though these parties are not always subject to our control. We have implemented safeguards to discourage these practices by our employees, consultants and customers. However, our existing safeguards and any future improvements may prove to be less than effective, and our employees, contractors or customers may engage in conduct for which we might be held responsible. Violations of the FCPA or similar laws may result in severe criminal or civil sanctions and we may be subject to other liabilities, which could adversely affect our business, financial condition and results of operations.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or information technology (IT) security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access. While we maintain insurance coverage for some of these events, the potential liabilities associated with these events could exceed the insurance coverage we maintain. A failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. To date, we have not been subject to cyber-attacks or other cyber incidents that we are aware of which, individually or in the aggregate, resulted in a material impact to our operations or financial condition.

For us to further penetrate the marketplace, the marketplace must be confident that we provide effective security protection for national and other secured identification documents and cards and other personally identifiable information or protected personal information, or PII. Although we are not aware that we have experienced any act of sabotage or unauthorized access by a third party of our software or technology to date, if an actual or perceived breach of security occurs in our internal systems or those of our customers, regardless of whether we caused the breach, it could adversely affect the market's perception of our products and services. This could cause us to lose customers, resellers, alliance partners or other business partners, thereby causing our revenues to decline. If we or our customers were to experience a breach of our internal systems, our business could be severely harmed by adversely affecting the market's perception of our products and services.

Most recently, we have considered the impacts of coronavirus disease (COVID - 19) on our overall operations. The full impact of this disease and the worldwide reaction to it are still developing rapidly at this time, and the widespread growth in infections, or travel restrictions, quarantines or site closures imposed as a result of the disease, is among other things, impacting the ability of our employees, sub-contractors, or our customers employees and sub-contractors to attend places of work, to meet with potential customers, or undertake implementations at our customer's locations. In addition, the disease could lead to disruptions in our supply chain, causing shortages or unavailability of software updates, or necessary equipment. Any of these outcomes could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

Interruptions, delays in service or defects in our systems could impair the delivery of our services and harm our business.

We depend on the efficient and uninterrupted operation of our computer network systems, software, telecommunications networks, and processing centers, as well as the systems and services of third parties, in order to provide services to our customers. Almost all of our network systems are hosted “in the cloud” by internationally recognized third party service providers such as Amazon Web Services and Microsoft Azure. Our systems and data centers are vulnerable to damage or interruption from, among other things, fire, natural disaster, power loss, telecommunications failure, terrorist acts, war, unauthorized entry, human error, and computer viruses or other defects. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. We have security, backup and recovery systems in place, and we are in the process of implementing business continuity plans that will be designed to ensure our systems will not be inoperable. However, there is still a risk that a system outage or data loss may occur which would not only damage our reputation but could also require the payment of penalties or damages to our clients if our systems do not meet certain operating standards. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of sabotage or terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Our property and business interruption insurance may not be applicable or adequate to compensate us for all losses or failures that may occur.

Any damage to, failure of, or defects, bugs or errors in our systems or those of third parties, errors or delays in the processing of payment or other transactions, telecommunications failures or other difficulties could result in loss of revenue, loss of customers, loss of customer and consumer data, harm to our business or reputation, exposure to fraud losses or other liabilities, negative publicity, additional operating and development costs, and diversion of technical and other resources.

Third parties could obtain access to our proprietary information or could independently develop similar technologies.

Despite the precautions we take, third parties may copy or obtain and use our technologies, ideas, know-how and other proprietary information without authorization or may independently develop technologies similar or superior to our technologies. In addition, the confidentiality and non-competition agreements between us and most of our employees, distributors and clients may not provide meaningful protection of our proprietary technologies or other intellectual property in the event of unauthorized use or disclosure. If we are not able to successfully defend our industrial or intellectual property rights, we may lose rights to technologies that we need to develop our business, which may cause us to lose potential revenues, or we may be required to pay significant license fees for the use of such technologies. To date, we have relied primarily on a combination of patents, trade secret and copyright laws, as well as nondisclosure and other contractual restrictions on copying, reverse engineering and distribution to protect our proprietary technology.

Our current patents and any patents that we may register in the future may provide only limited protection for our technology and may not be sufficient to provide competitive advantages to us. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around our patents. Any inability to protect intellectual property rights in our technology could enable third parties to compete more effectively with us.

In addition, the laws of certain foreign countries may not protect our intellectual property rights to the same extent as do the laws of the United States. Our means of protecting our intellectual property rights in the United States or any other country in which we operate may not be adequate to fully protect our intellectual property rights.

Third parties may assert that we are infringing their intellectual property rights; IP litigation could require us to incur substantial costs even when our efforts are successful.

We may face intellectual property litigation, which could be costly, harm our reputation, limit our ability to sell our products, force us to modify our products or obtain appropriate licenses, and divert the attention of management and technical personnel. Our products employ technology that may infringe on the proprietary rights of others, and, as a result, we could become liable for significant damages and suffer other harm to our business.

We have not been subject to material intellectual property litigation to date. Litigation may be necessary in the future to enforce any patents we have or may obtain and/or any other intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity, and we may not prevail in any such future litigation. Litigation, whether or not determined in our favor or settled, could be costly, could harm our reputation and could divert the efforts and attention of our management and technical personnel from normal business operations. In addition, adverse determinations in litigation could result in the loss of our proprietary rights, subject us to significant liabilities, require us to seek licenses from third parties, prevent us from licensing our technology or selling or manufacturing our products, or require us to expend significant resources to modify our products or attempt to develop non-infringing technology, any of which could seriously harm our business.

Our products may contain technology provided to us by third parties. Because we did not develop such technology ourselves, we may have little or no ability to determine in advance whether such technology infringes the intellectual property rights of any other party. Our suppliers and licensors may not be required to indemnify us in the event that a claim of infringement is asserted against us, or they may be required to indemnify us only with respect to intellectual property infringement claims in certain jurisdictions, and/or only up to a maximum amount, above which we would be responsible for any further costs or damages. In addition, we have indemnification obligations to certain parties with respect to any infringement of third-party patents and intellectual property rights by our products. If litigation were to be filed against these parties in connection with our technology, we would be required to defend and indemnify such parties.

Our officers and directors beneficially own a significant portion of our common stock and, as a result, can exercise control over stockholder and corporate actions.

Our officers and directors of the Company currently beneficially own approximately 11.1% of our outstanding common stock, and 19.3% on a fully diluted basis assuming the exercise of both vested and unvested options as well as warrants and the conversion of convertible debt. As such, they have a significant influence over most matters requiring approval by stockholders, including the election of directors and approval of significant corporate transactions. In addition, our directors hold approximately 61% of the secured debt issued by the Company, which is convertible into common stock. This concentration of ownership may also have the effect of delaying or preventing a change in control, which in turn could have a material adverse effect on the market price of the Company's common stock or prevent stockholders from realizing a premium over the market price for their Shares.

We face competition. Some of our competitors have greater financial or other resources, longer operating histories and greater name recognition than we do and one or more of these competitors could use their greater resources and/or name recognition to gain market share at our expense or could make it very difficult for us to establish market share.

The Company has created an Identity as a Service (IDaaS) platform allowing it to onboard customers who wish to deploy Ipsidy's services and solutions in order to know with biometric certainty who is engaging with them. Ipsidy's solutions include the ability to verify the identity of a user, via remote identity proofing, then provide physical and digital access, as well as transaction and device authentication, all digitally signed by the user using their identity. The Company's platform utilizes commodity, consumer grade tablets for customer deployment with users engaging the platform via a web-browser or a corresponding Android or iOS smartphone app.

The Company also offers certain payment processing solutions and smart card products manufacturing and printing. The industry sectors in which these products compete are characterized by rapid change and new entrants. The Company will need to consistently develop and improve its products in order to remain competitive.

In reviewing the competitors that exist for the Company's current and planned products and platform services relating to biometric identity solutions, the Company considers a number of factors. Ipsidy's platform approach offers an IDaaS approach which seeks to combine a number of different elements into a single platform. Ipsidy believes that its full stack platform is exceptional in that it provides a combination of SaaS based identity verification and identification services which cover both physical and digital identity access use cases. The competitive landscape includes several companies that mainly address only one or other area, with some addressing multiple areas independently. However, it is believed that some companies are attempting to create combined identity offerings, similar to Ipsidy's.

In looking at our competition, the Company does not consider providers who do not offer a consumer application solution for smartphones, such as the Ipsidy App. Neither do we consider competitors, which are major conglomerates with vertically integrated cybersecurity companies, due to the vast array of services which they offer. Furthermore, some of the competitors which do offer solutions for both digital and physical use cases, are major legacy providers offering hardware heavy solutions principally for governmental users. These include IDEMIA, Gemalto and Supercom. This is in contrast to Ipsidy's approach which is based on offering apps and browser-based solutions which are usable on mobile devices with minimal hardware requirements. Furthermore, our identity solutions are designed to address the requirements of private, commercial and governmental uses for enrolled users.

To further analyze the competitive landscape, the market must be segmented into authentication solution vendors and biometric identification & verification solution providers. Major competitors offering solutions in both areas include IDEMIA, Gemalto, ID.ME, HID Global, and Yoti. Major competitors offering only authentication, include Twillio/Authy, HYPR, Datacard, Duo, Daon, and Trusona. Companies offering only biometric identification & verification include NEC, Imagemware, Element, and Veridium.

The Ipsidy IDaaS platform is based on a patent-pending methodology, which combines digital signature authentication and biometric identity verification into a single out-of-band transaction. This provides functionality for our customers to have real-time control over their electronic transactions and every-day events through a mobile application, with a detailed audit trail created for each event, containing the digitally signed transaction details and biometric identity of the user. This patent-pending approach of combining transaction details and identity into a single, digitally signed message could allow the Ipsidy platform to be a complimentary solution to many of its competitors and hence differentiate itself in the market.

Companies that focused on offerings for ID proofing, include Jumio, Mitek and Acuant. Companies that provide a single solution may be seeking to combine with authentication and biometric verification technology providers to expand their ID proofing solutions' capabilities. The Ipsidy platform now offers its own identity proofing service for use in digital onboarding solutions, in conjunction with our biometric authentication and verification solutions.

Another aspect of the competitive landscape for platform service arises from market demand for SaaS based identity services that are both high assurance and low friction. This combination is the ideal balance that Ipsidy and its competitors are trying to achieve. Companies that are believed to be competing with Ipsidy with their offerings today are Callsign, Gemalto, Danal (acquired by Boku in 2018), Datacard/Entrust, and IDEMIA (Formerly Morpho and Obertur). In addition, Ipsidy offers its customers the flexibility to adapt its solutions to their specific use cases for either high assurance or to decrease friction.

With respect to SaaS based services for physical identity access management, the competitive landscape for Ipsidy also includes companies such as HID Global, NEC, and IDEMIA. All of these companies offer a broad range of solutions from complete biometric access control systems to complex biometric e-gate and passenger flow management solutions. Ipsidy's offering focuses on the SaaS based biometric identity solutions portion of this market, using mobile apps but also offers API integration with hardware suppliers to create competitive solutions.

There are new entrants into each of these markets continually. Each competitor may have a different offering or approach to solve similar problems, which overlap with those of the Company. Some competitors also include manufacturers who provide systems, or platform solutions to third party operators and, therefore, do not directly compete with the Company, which operates its own systems.

The Cards Plus business faces competition both locally in South Africa and internationally. China has become a source of imports of card products at highly competitive pricing and some local suppliers are reliant on Chinese card manufacturers. Local competitors include Card Technology Services, Easy Card and Open Gate, Cardz Group and XH Smart Technology (Africa). That said, we believe that we are the only significant manufacturer in South Africa using digital print technology.

The payment processing industry has many competitors who provide gateway services, closed loop end-to-end solutions, payment processing, peer-to-peer payments and bill payments. As these types of services are usually supplied by regional or country specific companies, the following summary of this competitive landscape, is focused on those countries or regions the Company is actively pursuing business in today. In Colombia and elsewhere in Latin America where the Company is focused, major competitors include PayU, Credibanco, Redeban, Mercado Pago, Nequi, and QPagos. Some of these companies may on the other hand be potential customers for our identify transaction platform and biometric authentication services. Companies in this region that also compete in those sectors include Veritran, Certicamaras, Olimpia IT, Evertec-Processa and Indra.

The resources available to our competitors to develop new products and introduce them into the marketplace exceed the resources currently available to us. As a result, our competitors may be able to compete more aggressively and sustain that competition over a longer period of time that we can. This intense competitive environment may require us to make changes in our products, pricing, licensing, services, distribution, or marketing to develop a market position. Each of these competitors has the potential to capture market share in our target markets which could have an adverse effect on our position in our industry and on our business and operating results.

Government regulation could negatively impact the business.

We do not have or require any approval from government authorities or agencies in order to operate our regular business and operations. However, data protection legislation in various countries in which the Company does business (including Columbia and the United Kingdom) may require it to register its databases with governmental authorities in those countries and to comply with additional disclosure and consent requirements with regard to the collection, storage and use of personal information of individuals resident in those countries. To the extent that our business is based on Governmental Contracts, the relevant government authorities will need to approve us as a supplier and the terms of those contracts. However, it is possible that any proposed expansion to our business and operations in the future would require government approvals. Due to the security applications and biometric technology associated with our products and platforms the activities and operations of our company are or could become subject to license restrictions and other regulations, such as (without limitation) export controls and other security regulation by government agencies. Expansion of our activities in payment processing may in due course require government licensing in different jurisdictions and may subject us to additional regulation and oversight. Aspects of payment processing and related financial services are already subject to legislation and regulations in various jurisdictions. As indicated, “We are exposed to risks in operating in foreign markets” above, the imposition of sanctions on particular countries, entities or individuals would prevent us from doing business with such countries, entities or individuals. If our existing and proposed products become subject to licensing, export control and other regulations, we may incur increased costs necessary to comply with existing and newly adopted or amended laws and regulations or penalties for any failure to comply. Our operations could be adversely affected, directly or indirectly, by existing or future laws and regulations (and amendments thereto) relating to our business or industry.

Some states in the United States have adopted legislation governing the collection, use of, and storage of biometric information and other states are considering such legislation. Specifically, several states are considering adopting a Biometric Information Privacy Act, or BIPA modelled on the Illinois statute, which governs the collection, processing, storage and distribution of biometric information such as facial biometric templates and fingerprints. Several of these new statutes give individuals rights of action to sue violators, which have resulted in a number of class action lawsuits. The widespread adoption of such legislation could result in restrictions on our current or proposed business activities or we may incur increased costs to comply with such regulations. In addition, a new privacy law took effect in California at the beginning of 2020, and in Maine in July 2020, and other states are considering additional regulations. These regulations could have a significant impact on our businesses.

Our common stock is thinly traded, so you may be unable to sell at or near asking prices or at all if you need to sell your shares to raise money or otherwise desire to liquidate your shares.

Currently, our common stock is quoted on the OTC and future trading volume may be limited by the fact that many major institutional investment funds, including mutual funds, as well as individual investors follow a policy of not investing in OTC stocks and certain major brokerage firms restrict their brokers from recommending OTC stocks because they are considered speculative, volatile and thinly traded. The OTC market is an inter-dealer market much less regulated than the major exchanges and our common stock is subject to abuses, volatility and shorting. Thus, there is currently no broadly followed and established trading market for our common stock. An established trading market may never develop or, if developed, be maintained. Active trading markets generally result in lower price volatility and more efficient execution of buy and sell orders. Absence of an active trading market reduces the liquidity of the shares traded there.

Our stock is considered a penny stock and any investment in our stock will be considered a high-risk investment and subject to restrictions on marketability.

The trading price of our common stock is below \$5.00 per share. If the price of the common stock is below such level, trading in our common stock would be subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, as amended. These rules require additional disclosure by broker-dealers in connection with any trades generally involving any non-NASDAQ equity security that has a market price of less than \$5.00 per share, subject to certain exceptions. Such rules require the delivery, before any penny stock transaction, of a disclosure schedule explaining the penny stock market and the risks associated therewith, and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors (generally institutions). For these types of transactions, the broker-dealer must determine the suitability of the penny stock for the purchaser and receive the purchaser's written consent to the transactions before sale. The additional burdens imposed upon broker-dealers by such requirements may discourage broker-dealers from effecting transactions in our common stock, which could impact the liquidity of our common stock.

Our business is subject to changing regulations regarding corporate governance, disclosure controls, internal control over financial reporting and other compliance areas that will increase both our costs and the risk of noncompliance. If we fail to comply with these regulations, we could face difficulties in preparing and filing timely and accurate financial reports.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, the Sarbanes-Oxley Act and the Dodd-Frank Act. Maintaining compliance with these rules and regulations, particularly after we cease to be an emerging growth company, will increase our legal, accounting and financial compliance costs, will make some activities more difficult, time-consuming and costly and may also place increased strain on our personnel, systems and resources.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and at the time we cease to be an emerging growth company and a smaller reporting company, we will be required to provide attestation that we maintain effective disclosure controls and procedures by our registered public accounting firm. Any failure to develop or maintain effective controls, or any difficulties encountered in their implementation or improvement, could harm our operating results or cause us to fail to meet our reporting obligations. Any failure to implement and maintain effective internal control also could adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting that are required to include in our periodic reports filed with the SEC, under Section 404(a) of the Sarbanes-Oxley Act or the annual auditor attestation reports regarding effectiveness of our internal controls over financial reporting that we will be required to include in our periodic reports filed with the SEC upon our ceasing to be an emerging growth company and a smaller reporting company, unless, under the JOBS Act, we meet certain criteria that would require such reports to be included prior to then, under Section 404(b) of the Sarbanes-Oxley Act. Ineffective disclosure controls and procedures and internal control over financial reporting could also cause investors to lose confidence in our reported financial and other information, which would likely have a negative effect on the trading price of shares of our common stock.

In order to maintain the effectiveness of our disclosure controls and procedures and internal control over financial reporting going forward, we will need to expend significant resources and provide significant management oversight. There is a substantial effort involved in continuing to implement appropriate processes, document our system of internal control over relevant processes, assess their design, remediate any deficiencies identified and test their operation. As a result, management's attention may be diverted from other business concerns, which could harm our business, operating results and financial condition. These efforts will also involve substantial accounting-related costs. We may experience difficulty in meeting these reporting requirements in a timely manner.

If we are unable to maintain key controls currently in place or that we implement in the future and pending such implementation, or if any difficulties are encountered in their implementation or improvement, (1) our management might not be able to certify, and our independent registered public accounting firm might not be able to report on, the adequacy of our internal control over financial reporting, which would cause us to fail to meet our reporting obligations, (2) misstatements in our financial statements may occur that may not be prevented or detected on a timely basis and (3) we may be deemed to have significant deficiencies or material weaknesses, any of which could adversely affect our business, financial condition and results of operations.

Implementing any appropriate changes to our internal controls may require specific compliance training of our directors, officers and employees, entail substantial costs in order to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. In the event that we are not able to demonstrate compliance with Section 404 of the Sarbanes-Oxley Act in a timely manner, our internal controls are perceived as inadequate or that we are unable to produce timely or accurate financial statements, our stock price could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

We are an “emerging growth company” and we cannot be certain if the reduced disclosure requirements applicable to “emerging growth companies” will make our common stock less attractive to investors.

We are an “emerging growth company,” as defined in the JOBS Act, and we expect to take advantage of certain exemptions and relief from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” In particular, while we are an “emerging growth company” (1) we will not be required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, (2) we will be exempt from any rules that may be adopted by the Public Company Accounting Oversight Board requiring mandatory audit firm rotations or a supplement to the auditor’s report on financial statements, (3) we will be subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and (4) we will not be required to hold nonbinding advisory votes on executive compensation or stockholder approval of any golden parachute payments not previously approved.

In addition, we are eligible to delay the adoption of new or revised accounting standards applicable to public companies until those standards apply to private companies, and as a result, we may not comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. The Company has adopted and will be adopting all standards as they have become effective for public companies.

We also take advantage of reduced disclosure requirements, including regarding executive compensation. If we remain an “emerging growth company” in the future, we may take advantage of other exemptions, including the exemptions from the advisory vote requirements and executive compensation disclosures under the Dodd-Frank Wall Street Reform and Customer Protection Act, and the exemption from the provisions of Section 404(b) of the Sarbanes-Oxley Act. We may remain an “emerging growth company” until (1) the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any June 30, in which case we would cease to be an “emerging growth company” as of the following December 31, (2) our gross revenue exceeds \$1 billion in any fiscal year, (3) we issue more than \$1 billion in nonconvertible notes in any three-year period or (4) the last day of the fiscal year following the fifth anniversary of the date of the first sale of our common equity securities pursuant to an effective registration statement.

The exact implications of the JOBS Act are still subject to interpretations and guidance by the SEC and other regulatory agencies, and we cannot assure that we will be able to take advantage of all of the benefits of the JOBS Act. In addition, investors may find our common stock less attractive if we rely on the exemptions and relief granted by the JOBS Act. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may decline and/or become more volatile.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's headquarters are located in Long Beach, New York where the Company currently leases office space. The facilities in Long Beach, New York are owned by Bridgeworks LLC, a company providing office facilities to emerging companies principally owned by Mr. Beck and his family, the former CEO and Board Member. The arrangement with Bridgeworks LLC allows the Company to use certain office services for a fixed, monthly fee of \$2,500 reduced from \$5,000 in September 2020. The arrangement with Bridgeworks LLC is terminable upon 30 days' notice.

The Company leased an office in Plantation, Florida for \$2,600 per month plus a share of building expenses. The lease expired in July 2020 and we did not renew the lease.

In October 2018, the Company subleased an office in Alpharetta, Georgia for approximately \$3,800 per month. The sub-lease expired on March 31, 2020 and we did not renew the lease.

MultiPay S.A.S. leases space in Bogotá, Colombia. In April 2017, MultiPay S.A.S. entered into a lease beginning April 22, 2017 for two years. The rent is approximately \$9,000 per month with an inflation adjustment after one year. The lease was extended through April 21, 2021. The Company intends to enter into a new lease within Bogota, Colombia with a smaller footprint and lower expense.

Cards Plus leases its office and production facility in a suburb of Johannesburg, South Africa. The location consists of approximately 39,500 square feet. The current lease is through June 30, 2022 at an approximate rent of \$8,000 per month.

We believe our facilities are in good operating condition and that our facilities are adequate for present and near term uses.

Item 3. Legal Proceedings

From time to time the Company is a party to various legal or administrative proceedings arising in the ordinary course of our business. While any litigation contains an element of uncertainty, we have no reason to believe that the outcome of such proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

The high and low per share closing sales prices of the Company’s stock on the OTCQB (ticker symbol: IDTY) for each quarter for the years ended December 31, 2020 and 2019 were as follows:

Quarter Ended	High	Low
March 31, 2019	\$ 0.14	\$ 0.06
June 30, 2019	\$ 0.15	\$ 0.05
September 30, 2019	\$ 0.13	\$ 0.08
December 31, 2019	\$ 0.10	\$ 0.02
March 31, 2020	\$ 0.10	\$ 0.02
June 30, 2020	\$ 0.13	\$ 0.04
September 30, 2020	\$ 0.16	\$ 0.08
December 31, 2020	\$ 0.18	\$ 0.08

Holder of our Common Stock

As of February 28, 2021, there were approximately 255 stockholders of record of our common stock. This number does not include shares held by brokerage clearing houses, depositories or others in unregistered form. The stock transfer agent for our securities is Computershare Shareholder Services, PO Box 505000, Louisville, Kentucky 40233.

Dividends

The Company has never declared or paid any cash dividends on its common stock. The Company currently intends to retain future earnings, if any, to finance the expansion of its business. As a result, the Company does not anticipate paying any cash dividends in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans as of December 31, 2020

Plan	Number of securities to be issued upon exercise of outstanding options, awards and rights	Weighted average price of outstanding options, awards and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Equity compensation plans approved by security holders - 2014 Equity Compensation Plan	25,000,000	\$ 0.45	-
Equity compensation plans approved by security holders - 2017 Equity Compensation Plan	70,000,000	0.08	-
Equity Compensation plans or arrangements not approved by security holders (includes 20,000,000 restricted shares)	92,580,725	0.12	-
	<u>187,580,725</u>	<u>\$ 0.15</u>	<u>-</u>

The Company has adopted the Ipsidy Inc. 2014 Equity Compensation Plan and the 2017 Incentive Stock Plan. The Company has no other stock options plans in effect as of December 31, 2020.

On November 21, 2014, our Board of Directors authorized the Ipsidy Inc. Equity Compensation Plan (the “2014 Plan”). On September 28, 2017, the shareholders of the Company approved the 2017 Incentive Stock Plan (“2017 Incentive Plan”). The following is a summary of principal features of the 2014 Plan and the 2017 Incentive Plan. The summaries, however, does not purport to be a complete description of all the provisions of each plan.

The 2014 Plan covers 25,000,000 shares of common stock and the 2017 Incentive Plan covers 70,000,000 shares of common stock. Both plans are administered by the Compensation Committee. In January 2021, the Board resolved to increase the shares allocated to the 2017 Incentive Plan by 75,000,000 and has proposed a resolution for ratification of such increase at the 2020 Annual Meeting of Stockholders.

Under each plan, options may be granted which are intended to qualify as Incentive Stock Options (“ISOs”) under Section 422 of the Internal Revenue Code of 1986 (the “Code”) or which are not (“Non-ISOs”) intended to qualify as Incentive Stock Options thereunder. Other types of equity awards may also be granted under each of the plans include but are not limited to restricted stock, restricted stock units, and stock appreciation rights, which together with the ISO’s and Non-ISO’s are hereinafter collectively referred to as “Awards”. Each of the plans are not considered qualified deferred compensation plan under Section 401(a) of the Internal Revenue Code and are not subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”).

The terms of Awards granted under the plans shall be contained in an agreement between the participant and the Company and such terms shall be determined by the Compensation Committee consistent with the provisions of the applicable plan. The terms of Awards may or not require a performance condition in order to vest the equity comprised in the relevant Award. The terms of each Option granted shall be contained in a stock option agreement between the optionee and the Company and such terms shall be determined by the Compensation Committee consistent with the provisions of the applicable plan.

Any option granted under either of the plans must provide for an exercise price of not less than 100% of the fair market value of the underlying shares on the date of grant, but the exercise price of any ISO granted to an eligible employee owning more than 10% of our outstanding common stock must not be less than 110% of fair market value on the date of the grant. The plan further provides that with respect to ISOs the aggregate fair market value of the common stock underlying the options which are exercisable by any option holder during any calendar year cannot exceed \$100,000. The term of each plan option and the manner in which it may be exercised is determined by the board of directors or the compensation committee, provided that no option may be exercisable more than 10 years after the date of its grant and, in the case of an incentive option granted to an eligible employee owning more than 10% of the common stock, no more than five years after the date of the grant. In the event of any stock split of our outstanding common stock, the board of directors in its discretion may elect to maintain the stated number of shares reserved under the plan without giving effect to such stock split. Subject to the limitation on the aggregate number of shares issuable under the plan, there is no maximum or minimum number of shares as to which a stock grant or plan option may be granted to any person.

Unregistered Sales of Equity Securities

During 2019, the Company issued approximately 411,000 shares of common stock to service providers in satisfaction of \$41,000, due for services.

In June 2019, the Company entered into Subscription Agreements with accredited investors (the “2019 Accredited Investors”) pursuant to which the 2019 Accredited Investors purchased an aggregate of approximately 38,764,000 shares of the Company’s common stock for an aggregate purchase price of approximately \$3,100,000. In connection with the private offering, the Company paid a cash fee of approximately \$173,000 and issued 1,251,750 common stock purchase warrants with a fair value of approximately \$79,000 that are exercisable during a term of five years at an exercise price of \$0.088 per share.

In December 2019 the Company entered into Securities Purchase Agreements with several accredited investors (the “8% Note Investors”) providing for the sale by the Company to the Investors of 8% Convertible Notes in the aggregate amount of \$428,000 (the “8% Notes”).

On February 14, 2020, the Company, entered into Securities Purchase Agreements with several accredited investors (the “2020 Note Investors”) providing for the sale by the Company to the 2020 Note Investors of 15% Senior Secured Convertible Notes in the aggregate amount of \$1,510,000 (the “2020 Notes”). The 2020 Notes mature February 28, 2022 and are a secured obligation of the Company. At the option of the 2020 Note Investors, they may at any time convert the 2020 Notes. The number of shares delivered shall be equal to 150% of the amount of the principal converted divided by the conversion price of \$0.20 per share. Following the 2020 Note Anniversary, the Company may require that the 2020 Note Investors convert all or a portion of the 2020 Notes, if the Company’s volume weighted average price for any preceding 20-day period is equal to or greater than \$0.30. In connection with this private offering, the Company paid Network 1 Financial Securities, Inc., a registered broker-dealer, a cash fee of approximately \$104,800.

Subject to the aggregate principal amount of all the 2020 Notes being not less than \$1,500,000, the 2020 Note Investors are entitled to nominate, and the Company will not unreasonably reject the appointment of a new member to the Company’s Board of Directors.

Furthermore, the Company and the Stern Trust entered an Amended and Restated Promissory Note (the “Restated Stern Note”) providing that the \$2,000,000 principal of the Stern Note will be due and payable on the same terms (bearing interest at 15% per annum) and on the same maturity date as the 2020 Notes. The interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 has been capitalized and will earn interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$0.20 and the maturity of such interest shall be extended to the same maturity date as the 2020 Notes. The Company and the 8% Note Investors entered into an amendment agreement pursuant to which that the principal and interest due under the 8% Notes will remain due and payable on the same terms as exist in the 8% Notes prior to modification, save that the maturity shall be extended to the same maturity date as the 2020 Notes.

Mr. Phillip Kumnick and Mr. Philip Broenniman, two of the Company’s Directors joined the Company as Chief Executive Officer and President and Chief Operating Officer effective May 22, 2020. As part of their engagement, Mr. Kumnick was granted options to acquire 33,333,334 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions. Mr. Broenniman was granted options to acquire 16,666,666 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions.

During 2020, the Company granted 1,500,000 shares of Restricted Common Stock to each of Phillip Kumnick and Philip Broenniman in connection with their compensation for service as Board Members. Additionally, an executive of the Company was granted 5,000,000 shares of Restricted Common Stock. The restricted stock vests upon the achievement of certain performance criteria. The performance criteria have not been met as of December 31, 2020.

On June 22, 2020, the Company entered into a Subscription Agreement with an accredited investor (the “June 2020 Accredited Investor”) pursuant to which the June 2020 Accredited Investor purchased 2,727,273 shares of common stock for \$150,000.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.10 Warrants were exercised for cash at an exercise price of \$0.07 per share. In addition, the holders that exercised the \$0.10 Warrants received a \$0.15 Warrant for every four \$0.10 Warrants exercised. As a result, the Company issued 10,008,333 shares of common stock and 2,502,085 \$0.15 Warrants in consideration of \$700,583. Included in those figures are (a) the exercise of \$0.10 Warrants by Mr. Theodore Stern, a director of the Company, resulting in the issuance of 1,000,000 shares of common stock and 250,000 \$0.15 Warrants in consideration of \$70,000; and (b) the exercise of \$0.10 Warrants by Varana Capital Focused, LP (“VCFLP”), resulting in the issuance of 3,716,667 shares of common stock and 929,167 \$0.15 Warrants, in consideration of \$260,167. Mr. Philip Broenniman, a director, the President and COO of the Company is the investment manager of VCFLP.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's \$0.05 Warrants were exercised for cash. In addition, the holders that exercised the \$0.05 Warrants received a \$0.15 Warrant for every two \$0.05 Warrants exercised. As a result, the Company issued 4,632,000 shares of common stock and 2,316,000 \$0.15 Warrants, in consideration of \$231,600. Separately, certain holders of the \$0.05 Warrants to acquire 1,770,000 shares of common stock exercised on a cashless basis resulting in the issuance of 560,659 shares of common stock.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's \$0.06 Warrants were exercised for cash. In addition, the holders that exercised the \$0.06 Warrants also received a \$0.15 Warrant for every two \$0.06 Warrants exercised. As a result, the Company issued 5,280,000 shares of common stock and 2,640,000 \$0.15 Warrants in consideration of \$316,800. Included in those figures is the exercise of \$0.06 Warrants by Vista Associates, L.P., of which Mr. Herbert Selzer a director of the Company, is the General Partner, resulting in the issuance of 880,000 shares of common stock and 440,000 \$0.15 Warrants, in consideration of \$52,800.

On June 30, 2020, the Company also entered into a Subscription Agreement with VCFLP pursuant to which VCFLP agreed to purchase 714,285 shares of common stock in consideration of \$50,000.

On October 30, 2020 and on November 6, 2020, Ipsidy Inc. entered into Securities Purchase Agreements with several accredited investors (the "October 2020 Accredited Investors") pursuant to which the October 2020 Accredited Investors agreed to purchase an aggregate of 52,435,000 shares of the Company's common stock together with Warrants to acquire 26,217,500 shares of common stock for a term of five years at an exercise price of \$0.15 per share for an aggregate purchase price of approximately \$5.24 million. In connection with this private offering, the Company paid a registered broker-dealer, a cash fee of approximately \$367,000 and issued the broker-dealer a common stock purchase warrant to acquire approximately 3.15 million shares of common stock of the Company exercisable for a term of five years at an exercise price of \$0.15 per share.

During the year ended December 31, 2020, the Company issued approximately 106,000 shares of common stock to a third-party provider of services in lieu of cash compensation.

During 2020, the Company issued approximately 1.7 million shares of common stock pursuant to cashless exercises of common stock purchase warrants and options, other than the June 2020 warrant exercises.

All the offers and sales of securities listed above were made to accredited investors. The issuance of the above securities is exempt from the registration requirements under Rule 4(a)(2) of the Securities Act of 1933, as amended, and/or Rule 506 as promulgated under Regulation D.

Item 6. Selected Financial Data.

As a smaller reporting company, the Company is not required to file selected financial data.

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

The discussion and analysis of our financial condition and results of operations are based on our financial statements, which we have prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues and expenses during the reporting periods. On an ongoing basis, we evaluate estimates and judgments, including those described in greater detail below. We base our estimates on historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

As used in this "Management's Discussion and Analysis of Financial Condition and Results of Operation," except where the context otherwise requires, the term "we," "us," "our," or "the Company," refers to the business of Ipsidy Inc.

Overview

Ipsidy Inc. together with its subsidiaries is a provider of an Identity as a Service (IDaaS) platform that delivers a suite of secure, mobile, biometric identity solutions, available to any vertical, anywhere. In a world that is increasingly digital and mobile, our mission is to help our customers know with biometric certainty the identity of the people with whom they are engaging. We provide solutions to everyday problems: Who is applying for a loan? Who is accessing the computer system? Who is in my lobby?

Ipsidy provides secure, biometric, identity verification and electronic transaction authentication services. We have developed an IDaaS platform for our customers, be they businesses, residences, houses of worship, or other organizations, to enable their users to authenticate their identity more easily to a mobile phone or portable device of their choosing (as opposed to dedicated hardware). Our system enables participants to consent to transactions using their biometric information with a digitally signed authentication response, including the underlying transaction data and embedded attributes of the participant's identity. In this way our systems can provide pre-transaction authentication of identity as well as embed each user's identity attributes, within every electronic transaction message processed through our platform, or other electronic systems.

The Company's products focus on the broad requirement for identity verification, authentication and access and transaction controls and associated identity management needs. Organizations of all descriptions require cost-effective and secure mobile electronic solutions for themselves and their customers. We aim to offer our customers solutions that can be integrated into each customer's business and organizational operations in order to facilitate their use and enhance the end user customer experience.

Ipsidy Inc. (formerly ID Global Solutions Corporation) (formerly IIM Global Corporation) (formerly Silverwood Acquisition Corporation) was incorporated on September 21, 2011 under the laws of the State of Delaware to engage in any lawful corporate undertaking, including, but not limited to, selected mergers and acquisitions. Ipsidy has been in the developmental stage since inception.

The Company's headquarters are in Long Beach, New York.

Key Trends

We believe that our financial results will be impacted by several market trends in the identity management security and transaction processing marketplace, including growing concerns over identity theft and fraud, in part resulting from the impact of the Coronavirus pandemic on the acceleration of digital transformation and remote working; security of offices, residences, places of worship and other public places and the increase in electronic payments, solutions provided by non-bank entities. The key drivers for these alternative payment methods are consumer demands for safe, convenient payment transactions, with less friction. Our results are also impacted by the changes in levels of spending on identity management and security methods, and thus, negative trends in the global economy and other factors which negatively impact such spending may negatively impact the growth our revenue from those products. The global economy has been undergoing a period of political and economic uncertainty and stock markets are experiencing high levels of volatility, and it is difficult to predict how long this uncertainty and volatility will continue.

We plan to grow our business by increasing the use of our services by our existing customers, by adding new customers through our channel partners and by expanding into new markets and innovation. If we are successful in these efforts, we would expect our revenue to continue to grow. In addition, based on the positive trends in the international payment processing industry noted above, we anticipate that as and when more payments are made using electronic and mobile methods, such as those that we offer, our revenue would also increase.

Going Concern

The Company has an accumulated deficit of approximately \$98.2 million as of December 31, 2020. The Company's continuation as a going concern is dependent on its ability to generate sufficient cash flows from operations to meet its obligations, which it has not been able to accomplish to date, and/or obtain additional financing from its stockholders and/or other third parties.

Our consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to meet its obligations and continue its operations for the next fiscal year. The continuation of the Company as a going concern is dependent upon financial support from its stockholders, the ability of the Company to obtain necessary equity or debt financing to continue operations, successfully locating and negotiating with other business entities for potential acquisition and /or acquiring new clients to generate revenues. Although the Company has been successful in raising capital, additional financing or improvement in operations is not assured.

In 2020 and 2019, the Company raised a total of approximately \$8.2 million and \$3.3 million, respectively, of additional funds from Accredited Investors.

In order to further implement its business plan and satisfy its working capital requirements, the Company will need to raise additional capital. There is no guarantee that the Company will be able to raise additional equity or debt financing at acceptable terms, if at all.

There is no assurance that the Company will ever be profitable. These consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that may result should the Company be unable to continue as a going concern. As there can be no assurance that the Company will be able to achieve positive cash flows (become cash flow profitable) and raise sufficient capital to maintain operations, there is substantial doubt about the Company's ability to continue as a going concern.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in the notes to our consolidated financial statements. Those material accounting estimates that we believe are the most critical to an investor's understanding of our financial results and condition are discussed immediately below and are particularly important to the portrayal of our financial position and results of operations and require the application of significant judgment by our management to determine the appropriate assumptions to be used in the determination of certain estimates.

Use of Estimates

In preparing these consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in our consolidated financial statements relate to the valuation of long-lived assets, accruals for potential liabilities, and valuation assumptions related to derivative liabilities, equity instruments and share based payments.

Revenue Recognition

Below is the Company's revenue recognition policy determined by revenue stream for its significant revenue generating activities.

Cards Plus - The Company recognizes revenue for the design and production of cards at the point in time when products are shipped, or services have been performed due to the short-term nature of the contracts.

Payment Processing – The Company recognizes revenue for variable fees generated for payment processing solutions that are earned on a usage fee over time based on monthly transaction volumes or on a monthly flat fee rate. Additionally, the Company also sells certain equipment from time to time for which revenue is recognized at a point in time the equipment is delivered to the customer.

Identity Solutions Software – The Company recognizes revenue based on the identified performance obligations over the performance period for fixed consideration and for variable fees generated that are earned on a usage fee based over time based on monthly transaction volumes or on a monthly flat fee rate. We allocate the selling price in the contract to one customer which has multiple performance obligations based on the contract selling price that we believe represents a fair market price for the service rendered.

All contracts are reviewed for their respective performance obligations and related revenue and expense recognition implications. Certain of the revenues are derived from the identity services could include multiple performance obligations. A performance obligation under the revenue standard is defined as a promise to provide a “distinct” good or service to a customer. The Company has determined that one possible treatment under the standard is that these services will represent a stand-ready series of distinct daily services that are substantially the same, with the same pattern of transfer to the customer. Further, the Company has determined that the performance obligation to provide account access and facilitate transactions may meet the criteria for the “as invoiced” practical expedient, in that the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company’s performance completed to date. As a result, the Company anticipates it may recognize revenue in the amount to which the Company has a right to invoice, based on completed performance at the relevant date. Additionally, the contracts could include implementation services, or support on an “as needed” basis and we will review each contract and determine whether such performance obligations are separate and distinct and apply the standard accordingly to the revenue and expense derived from or related to each such service.

Additionally, the Company capitalizes the incremental costs of acquiring and fulfilling a contract with a customer if the Company expects to recover those costs. The incremental costs of acquiring and fulfilling a contract are those that the Company incurs to acquire and fulfill a contract with a customer that it would not have incurred if the contract had not been acquired (for example, a sales commission or specific incremental costs associated with the contract).

Financing revenue related to direct financing leases is recognized over the term of the lease using the effective interest rate method.

Accounts Receivable

All customers are granted credit on a short-term basis and related credit risks are considered minimal. The Company routinely reviews its trade receivables and makes provisions for probable doubtful accounts; however, those provisions are estimates and actual results could differ from those estimates and those differences may be material. Trade receivables are deemed uncollectible and removed from accounts receivable and the allowance for doubtful accounts when collection efforts have been exhausted. On December 31, 2020 and 2019 no allowance for doubtful accounts was necessary.

Inventories

Inventory of plastic/ID cards, digital printing material, which are held by Cards Plus Pty Ltd., are at the lower of cost (using the average method) or market. The Plastic/ID cards and digital printing material are used to provide plastic loyal ID and other types of cards. Inventories of kiosks held by IDGS S.A.S are stated at the lower of cost (using the first-in, first-out method) or net realizable value. The kiosks provide electronic ticketing for transit systems.

Inventories on December 31, 2020 consist solely of cards inventory and inventories at December 31, 2019 consist of cards inventory and kiosks that have not been placed into service. As of December 31, 2020, the Company recorded an inventory valuation allowance of approximately \$18,000 to reflect net realizable value of the cards inventory. As of December 31, 2019, the Company had an inventory valuation allowance for kiosks of \$236,000 that were being held for sale and \$18,000 for the cards inventory.

Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period.

Property and Equipment, net

Property and equipment consist of furniture and fixtures and computer equipment and are stated at cost. Property and equipment are depreciated using the straight-line method over the estimated useful lives of three to five years. Maintenance and repairs are expensed as incurred and improvements are capitalized. Gains or losses on the disposition of property equipment are recorded upon disposal.

Other Assets - Software Development Costs

Other assets includes when applicable, costs associated with software development of new product offerings and enhancements to existing applications. Research & development costs are expensed as incurred. Development costs of computer software to be sold, leased or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. As of December 31, 2020, all assets have been placed into service. As of December 31, 2019, a portion of the software was still under development and had not been placed in service. Upon completion, the amounts were transferred to the appropriate asset category and expensed over their estimated useful lives. In 2020 and 2019, approximately \$0.1 million and \$3.1 million of software development costs were placed into service and classified as internally developed software.

Intangible Assets

Excluding goodwill, acquired intangible assets and internally developed software are amortized over their estimated useful lives which is currently five to ten years. Acquired amortizing intangible assets are carried at cost, less accumulated amortization. Internally developed software costs are capitalized upon reaching technological feasibility.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the fair value of net identified tangible and intangible assets acquired. The Company performs an annual impairment test of goodwill and further periodic tests to the extent indicators of impairment develop between annual impairment tests. The Company's impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit utilizing qualitative considerations. To determine the fair value of the reporting unit, the Company may use various approaches including an asset or cost approach, market approach or income approach or any combination thereof. These approaches may require the Company to make certain estimates and assumptions including future cash flows, revenue and expenses. These estimates and assumptions are reviewed each time the Company tests goodwill for impairment and are typically developed as part of the Company's routine business planning and forecasting process. While the Company believes its estimates and assumptions are reasonable, variations from those estimates could produce materially different results.

During the year ended December 31, 2020, the Company recorded an impairment loss of approximately \$1.0 million, associated with goodwill at one of its reporting units. As a result of the current pandemic and its potential impact on future results, the Company updated its reporting unit projections, and it indicated a goodwill impairment as the carrying value may not be recovered as revenue assumptions and related revenue were revised downward.

During the year ended December 31, 2019, the Company updated our projections associated with our reporting units and it indicated that the carrying value may not be recovered as revenue assumptions were not met. The goodwill impairment loss for the year ended December 31, 2019 was approximately \$1.5 million across the three reporting units.

The fair value of the reporting unit in both years was determined using discounted cash flow as well as future realizable value.

Impairment of Long-Lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset.

If the carrying amount of an asset exceeds its undiscounted estimated future cash flows, an impairment review is performed. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Generally fair value is determined using valuations techniques such as expected discounted cash flows or appraisals, as appropriate. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. During the year ended December 31, 2020, the Company impaired intangible assets of approximately \$297,000 at one of the reporting units as the carrying were in excess its recoverable amount. During the year ended December 31, 2019, the Company impaired intangible assets related to developed software of approximately \$155,000 as the net assets were no longer being used for commercial purposes.

Research and Development Costs

Research and development costs consist of expenditures for the research and development of new products and technology. These costs are primarily expenses to vendors contracted to perform research projects and develop technology for the Company's products. Research and development costs are expensed as incurred.

Stock-based compensation

The Company has accounted for stock-based compensation under the provisions of FASB ASC 718 – “Stock Compensation” which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (stock options and common stock purchase warrants). For employee awards, the fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. For non-employees, the fair value of each stock option award is estimated on the measurement date using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. For non-employees, the Company utilizes the graded vesting attribution method under which the entity treats each separately vesting portion (tranche) as a separate award and recognizes compensation cost for each tranche over its separate vesting schedule. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the stock options. For employee awards, the expected term of options granted is derived using the “simplified method” which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term.

The Company adopted as of January 1, 2019 the requirements of ASU 2018-07 which simplified the accounting for share-based payments granted to non-employees for share based payments granted to non-employees for goods and services. Under the ASU, most of the guidance on such payments to non-employees were aligned with the share-based payments granted to employees. The Company determined on the date of adoption that the impact was not significant.

Recent Accounting Pronouncements

In January 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-04, “Intangibles-Goodwill and Other: Simplifying the Test for Goodwill Impairment” (ASU 2017-04). The standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. Under the amendments of ASU 2017-04, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value, but the loss cannot exceed the total amount of goodwill allocated to the reporting unit. The Company adopted ASU 2017-04 for the calendar year ending December 31, 2020, the effective date for adoption. The adoption of this standard did not have a have a material impact on the Company's financial statements.

Adjusted EBITDA.

This discussion includes information about Adjusted EBITDA that is not prepared in accordance with U.S. GAAP. Adjusted EBITDA is not based on any standardized methodology prescribed by U.S. GAAP and is not necessarily comparable to similar measures presented by other companies. A reconciliation of this non-GAAP measure is included below.

Adjusted EBITDA is a non-GAAP financial measure that represents U.S. GAAP net income (loss) adjusted to exclude (1) interest expense, (2) interest income, (3) provision for income taxes, (4) depreciation and amortization, (5) stock-based compensation expense (stock options and restricted stock) and (6) certain other items management believes affect the comparability of operating results. Other items included the following:

- Severance cost of \$0.4 million in 2020
- Impairment loss of \$1.3 million in 2020 and \$1.7 million in 2019
- Extinguishment of debt of \$1.0 million in 2020
- Warrant inducement expense of \$0.4 million in 2020.

Management believes that Adjusted EBITDA, when viewed with our results under U.S. GAAP and the accompanying reconciliations, provides useful information about our period-over-period results. Adjusted EBITDA is presented because management believes it provides additional information with respect to the performance of our fundamental business activities and is also frequently used by securities analysts, investors and other interested parties in the evaluation of comparable companies. We also rely on Adjusted EBITDA as a primary measure to review and assess the operating performance of our company and our management, and it will be a focus as we invest in and grow the business.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation from, or as a substitute for, analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and Adjusted EBITDA does not reflect any cash requirements for such replacements;
- Adjusted EBITDA does not include the impact of certain charges or gains resulting from matters we consider not to be indicative of our ongoing operations.

Because of these limitations, adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our U.S. GAAP results and using Adjusted EBITDA only as a supplement to our U.S. GAAP results.

Reconciliation of Net Loss to Adjusted EBITDA

	For the Year Ended	
	December 31,	December 31,
	2020	2019
Net loss	\$ (11,298,558)	\$ (10,500,358)
Add Back:		
Interest expense - net	969,396	375,598
Debt extinguishment	985,842	-
Warrant exercise inducement expense	366,795	-
Other income, net	(69,563)	(23,920)
Severance cost	426,175	-
Depreciation and amortization	1,250,542	790,367
Taxes	36,323	62,931
Impairment loss	1,333,566	1,671,804
Stock compensation	823,564	1,246,019
Adjusted EBITDA (Non-GAAP)	<u>\$ (5,175,918)</u>	<u>\$ (6,377,559)</u>

The decrease in Adjusted EBITDA loss in 2020 compared to 2019 is principally due to the Company's increased focus and investment on its principal products combined with its cost minimization programs to reduce overall expenses.

Results of Operations and Financial Condition for the Year Ended December 31, 2020 as Compared to the Year Ended December 31, 2019

Revenues

For the year ended December 31, 2020 compared to the year ended December 31, 2019, the Company's revenue decreased \$2.1 million from \$2.6 million, or \$0.5 million. The decrease in revenue for the year ended December 31, 2020 is principally due to the Covid-19 pandemic. Revenue at Cards Plus and our Colombian operations declined by \$0.3 million and \$0.1 million respectively.

Cost of sales

During the years ended December 31, 2020 and December 31, 2019, cost of sales was \$0.7 million in both periods. Costs of sales was slightly higher in the year ended December 31, 2020 compared to December 31, 2019 due to lower margin revenue at Cards Plus. Although sales decreased, cost of sales was comparable year over year due to sales of inventory purchased in prior year that was brought at a higher exchange rate causing lower margins.

General and administrative

General and administrative expenses for the year ended December 31, 2020 decreased by approximately \$1.2 million as compared to the same period in 2019 due in part due to lower stock compensation charges (reduced by \$0.4 million) with the balance related to staff reductions and other cost minimization efforts.

Research and development

During the year ended December 31, 2020 compared to the year ended December 31, 2019, research and development expenses decreased by approximately \$0.5 million as the Company reduced its overall spend while focusing its resources on key product initiatives and reducing staff.

Impairment loss

During the year ended December 31, 2020, the Company recorded a goodwill impairment loss of approximately \$1.0 million, associated with goodwill at a reporting unit based in Africa. Additionally, in the year ended December 31, 2020, the Company recorded an impairment on intangible assets of approximately \$0.3 million at a reporting unit in Latin America as the carrying value was in excess of its estimated recoverable value. As a result of the current pandemic and its potential impact on future results, the Company updated its reporting unit projections and these indicated impairments for either goodwill or intangible assets were required as the carrying value may not be recovered as revenue assumptions and related revenue were revised downward. The fair value of the reporting unit was determined using discounted cash flow.

Depreciation and amortization

Depreciation and amortization expense increased during the year ended December 31, 2020 compared to December 31, 2019 due to increased amortization expense associated with approximately \$3.1 million in capitalized software being placed into service in 2019.

Interest Expense

Interest expense increased during the year ended December 31, 2020 compared to the year ended December 31, 2019 due to convertible debt offerings in December 2019 and February 2020 that increased the level of debt outstanding and related interest expense.

Other Income (Expense)

During the year ended December 31, 2020, the Company recorded a charge of approximately \$986,000 related to the amendment of a promissory note which was treated as an extinguishment of a note payable and a charge of \$367,000 in connection with the inducement to certain warrant holders to exercise their outstanding warrants.

Covid-19

A novel strain of coronavirus (“Covid-19”) emerged globally in December 2019 and has been declared a pandemic. The extent to which Covid-19 has impacted and will impact our customers, business, results and financial condition will depend on current and future developments, which are highly uncertain and cannot be predicted at this time. The Company’s day-to-day operations beginning March 2020 have been impacted differently depending on geographic location and services that are being performed. The Cards Plus business located in South Africa did not have any operations in April 2020 and has had limitations on its operations starting in May 2020, as the Company is following the guidance and requirements of the South African government. Our operations in the United States and Colombia have suffered less immediate impact as most staff can work remotely and can continue to develop our product offerings.

That said, we have seen our business opportunities develop more slowly as business partners and potential customers are dealing with Covid-19 issues, working remotely and these issues are causing delays in decision making and finalization of negotiations and agreements. However, the level of inquiries about our services has increased during the last quarter of 2020, as our products are designed to serve an increasingly mobile economy and workforce.

Liquidity and Capital Resources

As of December 31, 2020, current assets were \$4.4 million and current liabilities outstanding amounted to \$2.9 million which resulted in net working capital of \$1.5 million.

Net cash used by operating activities was \$4.7 million for the year ended December 31, 2020 compared to \$6.1 million in 2019. Cash used in operations for 2020 and 2019 was the primarily result of funding the business operations as the Company invested in people and product a developing business.

Net cash used in investing activities in 2020 and 2019 was approximately \$0.3 million and \$1.6 million as the Company invested in software development expenditures which were capitalized.

Net cash provided by financing activities for 2020 and 2019 was approximately \$8.2 million and \$3.3 million, which consisted primarily of the net proceeds from the sale of common stock, issuance of convertible notes payable, and the exercise of warrants in 2020 and the sale of common stock and issuance of convertible notes payable in 2019.

Description of Indebtedness

As described in Item 1A, (Risk Factors) the Company has a history of losses and may not be able to achieve profitability in the near term. The Company has not been able to achieve positive cash flows from operations and raised additional financing in 2019 and 2020 from equity financing and convertible notes payable financing.

See Notes 6 and 7 of the Consolidated Financial Statements for additional information associated with the notes and convertible notes payable.

The following is a summary of the convertible notes payable outstanding on December 31, 2020:

8% convertible notes payable issued December 2019	\$ 428,000
15% convertible notes payable issued February 2020	5,265,000
10% convertible notes payable issued February 2020	662,000
Unamortized discount on convertible notes	(494,138)
Unamortized debt issuance costs	(59,886)
	<u>\$ 5,800,976</u>

- On January 31, 2017, the Company entered and closed a Securities Purchase Agreement with the Stern Trust pursuant to which the Stern Trust invested an aggregate of \$3,000,000 into the Company in consideration of the Stern Note and 4,500,000 shares of common stock. The Stern Note bears interest of 10% per annum, which compounds annually. On August 9, 2018, the Company prepaid \$1,000,000 of principal of the Stern Note plus the related accrued interest of approximately \$158,000. On February 14, 2020 the Company and the Stern Trust entered an Amended and Restated Promissory Note (the “Restated Stern Note”) providing that the \$2,000,000 principal of the Stern Note will be due and payable on the same terms (bearing interest at 15% per annum) and on the same maturity date as the 2020 Notes. The interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 has been capitalized and will earn interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$0.20 and the maturity of such interest shall be extended to the same maturity date as the 2020 Notes.
- On December 13, 2019, the Company, entered into Securities Purchase Agreements with several accredited investors (the “8% Note Investors”) providing for the sale by the Company to the Investors of 8% Convertible Notes in the aggregate amount of \$428,000 (the “8% Notes”). The 8% Notes mature on November 30, 2021 and pursuant to the amendment in February 2020 referenced below, are a secured obligation of the Company. The Company shall pay interest on the 8% Notes at the rate of 8.0% per annum payable at the earlier of the maturity date or conversion date, in cash or, at the holder’s option, shares of common stock of the Company. At the option of the 8% Note Investors, all or a portion of the 8% Notes may be converted into shares of common stock of the Company at \$0.08 per share. On February 14, 2020 the Company and the 8% Note Investors entered into an amendment agreement pursuant to which that the principal and interest due under the 8% Notes will remain due and payable on the same terms as exist in the 8% Notes prior to modification, save that the maturity shall be extended to the same maturity date as the 2020 Notes.

- On February 14, 2020, the Company entered into Securities Purchase Agreements with the 2020 Note Investors providing for the sale by the Company to the 2020 Note Investors of 15% Senior Secured Convertible Notes in the aggregate amount of \$1,510,000 which mature in February 2022. The security interest granted to the holders of the 2020 Notes, 8% Notes and Stern Note ranks *pari passu*. Each of the secured parties appointed Mr. Stern and a third-party investor as joint collateral agents. Mr. Stern, a director of the Company, is the trustee of the Stern Trust.

Paycheck Protection Program

- In May 2020, the Company received a loan of approximately \$486,000 under the Paycheck Protection Program (“PPP”) of the U.S. Small Business Association (“USSBA”) related to its U.S. operations. The Company anticipates, subject to approval by USSBA, if certain requirements are met, the loan will be forgiven. Any amounts not forgiven will be required to be repaid. The loan forgiven application has been filed with its lender and the USSBA.
- In January 2021, the Company received a second loan of approximately \$486,000 under the PPP related to its U.S. Operations. The Company anticipates subject to approval by USSBA, if certain requirements are met the second loan will be forgiven. Any amounts not forgiven will be required to be repaid.

If the USSBA determines that the PPP loan was not properly obtained and/or expenditures supporting forgiveness were not appropriate, the Company would need to repay some or all of the PPP loan and record additional expense which could have a material adverse effect on the Company’s financial condition and results of operations in a future period.

As of December 31, 2020, the total notes payable is approximately \$493,300 of which approximately \$485,800 could be forgiven under the provisions of the USSBA PPP. Additionally, the Company has approximately \$5.8 million of Convertible Notes Payable outstanding, net of discounts as of December 31, 2020.

Equity Financing

See Note 9 of the Consolidated Financial Statements for additional information associated with equity financing in 2020 and 2019.

2020 Common Stock Transactions

- In June 2020, the Company entered into Subscription Agreements with two accredited investors (the “June 2020 Accredited Investors”) pursuant to which the June 2020 Accredited Investors agreed to purchase 3,441,558 shares of common stock for \$200,000.
- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.10 Warrants were exercised for cash at an exercise price of \$0.07 per share. In addition, the holders that exercised the \$0.10 Warrants received a \$0.15 Warrant for every four \$0.10 Warrants exercised. As a result, the Company issued 10,008,333 shares of common stock and 2,502,085 \$0.15 Warrants in consideration of \$700,583.
- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.05 Warrants were exercised for cash. In addition, the holders that exercised the \$0.05 Warrants received a \$0.15 Warrant for every two \$0.05 Warrants exercised. As a result, the Company issued 4,632,000 shares of common stock and 2,316,000 \$0.15 Warrants, in consideration of \$231,600. Separately, certain holders of the \$0.05 Warrants to acquire 1,770,000 shares of common stock exercised on a cashless basis resulting in the issuance of 560,659 shares of common stock.

- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's \$0.06 Warrants were exercised. In addition, the holders that exercised the \$0.06 Warrants also received \$0.15 Warrant for every two \$0.06 Warrants exercised. As a result, the Company issued 5,280,000 shares of common stock and 2,640,000 \$0.15 Warrants in consideration of \$316,800.
- On October 30, 2020 and on November 6, 2020, Ipsidy Inc. entered into Securities Purchase Agreements with several accredited investors (the "October 2020 Accredited Investors") pursuant to which the October 2020 Accredited Investors agreed to purchase an aggregate of 52,435,000 shares of the Company's common stock together with Warrants to acquire 26,217,500 shares of common stock for a term of five years at an exercise price of \$0.15 per share for an aggregate purchase price of approximately \$5.24 million. In connection with this private offering, the Company paid a registered broker-dealer, a cash fee of approximately \$367,000 and issued the broker-dealer a common stock purchase warrant to acquire approximately 3.15 million shares of common stock of the Company exercisable for a term of five years at an exercise price of \$0.15 per share.
- During 2020, the Company issued approximately 1.7 million shares of common stock pursuant to cashless exercises of common stock purchase warrants and options, other than the June 2020 warrant exercises.

2019 Common Stock Transactions

- In June 2019, the Company entered into Subscription Agreements with accredited investors (the "2019 Accredited Investors") pursuant to which the 2019 Accredited Investors purchased an aggregate of approximately 38,764,000 shares of the Company's common stock for an aggregate purchase price of approximately \$3,100,000. In connection with the private offering, the Company paid a cash fee of approximately \$173,000 and issued 1,251,750 common stock purchase warrants with a fair value of approximately \$79,000 that are exercisable during a term of five years at an exercise price of \$0.088 per share.

In 2021, the Company will continue to be opportunistic as well as judicious in raising additional funds to support its operations and investments as it creates a sustainable organization. There is no guarantee that such financing will be available if available on acceptable terms.

Our growth-oriented business plan to offer products to our customers will require continued capital investment. Research and development activities will also require continued investment. We raised approximately \$8.2 million and \$3.5 million in 2020 and 2019, respectively, through equity and debt financing at varying terms. In order to implement and grow our operations through December 31, 2022, achieve an expected annual revenue stream from our products and repay our outstanding convertible debt obligations (\$7.6 million) in February 2022 we expect that we will need to raise between \$14 and \$16 million dollars. See Note 7 of the Consolidated Financial Statements for additional information with respect conversion options of the respective convertible noteholders. There is no guarantee that our current business plan will not change, and as a result of such change, we will need additional capital to implement such business plan. Further, assuming we achieve our expected growth plan, of which there is no guarantee, we will need additional capital to implement growth beyond our current business plan.

As of December 31, 2020, the total notes payable is approximately \$493,300 of which approximately \$485,800 could be forgiven under the provisions of the USSBA Paycheck Protection Program. Additionally, the Company has approximately \$5.8 million of Convertible Notes Payable outstanding, net of discounts as of December 31, 2020.

Off-Balance Sheet Arrangements

We have no off-balance sheet financing arrangements.

Contractual Obligations

As of December 31, 2020, the Company had the following contractual obligations.

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Notes Payable	\$ 493,300	\$ 6,000	\$ 487,300	\$ -	\$ -
Convertible Notes Payable	6,355,000	-	6,355,000	-	-
Operating Leases	180,100	130,300	49,800	-	-
Capital Leases	53,900	10,800	43,100	-	-
	<u>\$ 7,082,300</u>	<u>\$ 147,100</u>	<u>\$ 6,935,200</u>	<u>\$ -</u>	<u>\$ -</u>

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto and the report of our independent registered public accounting firm, are set forth on pages F-1 through F-33 of this report.

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

None

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual Report, our Chief Executive Officer and Chief Financial Officer performed an evaluation of the effectiveness of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2020, the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the report that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our internal control over financial reporting is designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected and such evaluation is subject to the risks discussed in item 1A – Risk Factors of this Report.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2020, using the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on management's assessment using the above criteria, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2020. During 2020, the Company revised their quarterly and annual financial reporting and closing procedures to remediate previously reported control deficiency.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during our last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting except that, during 2020, the Company revised their quarterly and annual financial reporting and closing procedures to remediate previously reported control deficiency.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance;

The current Directors and Officers of the Company are as follows:

Name	Age	Position (s) and Offices Held
Phillip L. Kumnick	54	Chief Executive Officer and Chairman of the Board of Directors
Philip R. Broenniman**	55	Chief Operating Officer, President and Director
Herbert Selzer (1)(2)(3*)	74	Director
Theodore Stern (1*)(2)(3)	91	Director
Stuart Stoller	65	Chief Financial Officer
Thomas Szoke	56	Chief Solutions Architect and Director
Christopher White	48	Chief Technology Officer

* denote Committee Chair

** Appointed March 2020

- (1) Audit Committee
- (2) Governance Committee
- (3) Compensation Committee

Phillip Kumnick

Phillip Kumnick serves as Chief Executive Officer and Chairman of the Board of Directors of the Company, having been appointed as CEO in May 2020, as a director in 2019 and Chairman of the Board of Directors in October 2020. From 2010 to 2018, Mr. Kumnick was Senior Vice President Global Acquirer Processing at Visa, Inc., and was the executive in charge of leading and growing Visa's acquirer and merchant processing services and omni-channel solutions on a global basis. Mr. Kumnick was also a key contributor to the design of the Secure Remote Commerce (SRC) standard now being rolled out by the card brands, which aims to provide a simple and secure card payment experience. SRC uses tokenization to protect consumers' sensitive data and intelligent identity authentication to help distinguish legitimate cardholders from fraudsters. Mr. Kumnick was the product owner and developer of Visa's critical entry into encryption and tokenization products and services for their acquiring partners for transactions at the physical point of sale. Prior to joining Visa, Mr. Kumnick was the leader of the Cards & Payments practice of Cap Gemini Consulting from October 2009 through June 2010. Prior to Cap Gemini Consulting, Mr. Kumnick was a Senior Vice President at TSYS Acquiring Solutions from 2001 to 2009, with responsibility for leading the Product Management team and expanding the Company's portfolio of merchant and acquirer products. He was also a leader of key M&A activities, including business development and strategic investment in Europe, Latin America and Asia, and helped expand TSYS' client footprint to over 70 countries. Mr. Kumnick started his payments career at MasterCard International where he worked from 1988 to 2000, in various capacities, rising to Vice President & Chief Settlement Officer – Global Settlement Operations. In that role he was responsible for the 7 x 24 x 365 mission critical clearing and payment operations of a \$3.0 billion per day global EFT and treasury operation. Mr. Kumnick was a strategic subject matter expert and key contributor to the evolution of MasterCard's global processing functions. Mr. Kumnick has an MBA- Finance and a BS Finance from St. Louis University.

Philip R. Broenniman.

Mr. Broenniman, serves as Chief Operating Officer and President, having been appointed in May 2020, as well as a Director of the Company, having been appointed in March 2020, Mr. Broenniman has been, for the last nine years, Managing Partner and Portfolio Manager for Varana Capital, LLC (“VCLLC”), a firm he co-founded in 2011. Through his position at VCLLC, Mr. Broenniman invests in, and consults with the Board of Directors of, certain public and private companies, working with each on strategic planning, financing, and/or balance sheet restructuring. Mr. Broenniman began his portfolio management career with the Bass family of Fort Worth, TX in 1993, investing in event strategies, assisting on a \$1 billion book of derivative hedging and investment strategies, and developing his skills in derivative analytics, risk management, and portfolio construction. Privately, from August 2010 until February 2018, Mr. Broenniman was co-founder and a member of Cadence Distributors, LLC, an import/export company focused on the fragrance industry. From February 2012 to April 2017, Mr. Broenniman was a founding investor in Cacao Prieto, a bourbon and rum distillery, providing strategic guidance during the initial launch of the business. Mr. Broenniman served as a member of the Board of Directors and Special Committee evaluating strategic options for CSS Industries, Inc. (Formerly NYSE: CSS) from July 2019 until March 2020, upon the successful closing of its merger. Mr. Broenniman has a BS from Duke University, an MBA from University of Virginia and is a Chartered Financial Analyst.

Herbert Selzer

Herbert Selzer serves as an Independent Director of the Company. Mr. Selzer is an attorney based on New York, New York with a focus in corporate, international estate planning, trust and estates and wealth management. Mr. Selzer has been with Loeb, Block & Partners LLP since 1972 and became a partner in 1978. Prior to 1972, Mr. Selzer was employed by Ernst & Young. Mr. Selzer holds a BS Economics from Brooklyn College, a JD from George Washington University Law Center, an LLM in Taxation from New York University Law School.

Theodore Stern

Mr. Stern has served in several executive positions in the energy and software industries over his career. Previously he served as Chairman of the Board of inContact Inc. from 2000 to 2016 (when the company was acquired). He was Chairman and CEO from 2000 to 2005 when the positions were split. He oversaw the acquisition of four companies and the transition of inContact from a telecommunications company to a rapidly growing software-as-a-service company. Additionally, he previously served as a member of the Board of Directors of Ensync Inc and served on the Governance, Audit and Compensation Committees.

Mr. Stern also was a Senior Executive Vice President and member of the Board of Directors of Westinghouse Electric Corporation until his retirement. In his last position at Westinghouse Electric, Mr. Stern was responsible for multiple business units. Mr. Stern served as Vice Chairman of the Board of Directors of Superconductivity, Inc. of Madison, Wisconsin, a small technology company, until it was acquired in April 2007. Mr. Stern also served on the Board of Directors of Copperweld Corporation of Pittsburgh, Pennsylvania, a privately-owned steel and cable manufacturer, until its acquisition by LTV. Mr. Stern also served on the Board of Directors of Northern Power Systems of Waitsfield, Vermont, a privately-owned manufacturer of renewable and distributed generation systems until it was acquired by Distributed Energy Systems Incorporated (DESC). Mr. Stern also served on the board of directors of DESC. Mr. Stern holds a Bachelor of Science degree in Mechanical Engineering from the Pratt Institute and a Master of Arts degree in Theoretical Mathematics from New York University. He is a fellow of the American Society of Mechanical Engineers and a member of the National Academy of Engineering. He is the author of a number of technical papers on nuclear power technology.

Stuart Stoller

Stuart Stoller serves as Chief Financial Officer of the Company having been appointed in January 2017. Mr. Stoller. Prior to joining the Company served as Chief Financial Officer and Board Member for TestAmerica Environmental Services LLC from May 2016 to October 2017. From December 2013 to April 2016, he was the Chief Financial Officer of Associated Food Stores. Mr. Stoller served as Chief Financial and Administrative Officer for Sleep Innovations from August 2009 to October 2013. Prior to joining Sleep Innovations, Mr. Stoller for 27 years served various roles with the New York Times Company including Senior Vice President for Process Reengineering and Corporate Controller and various capacities at Macy's which included the role of Senior Vice President and Corporate Controller. He also was the controller of Coopers & Lybrand LLP. He is a Certified Public Accountant.

Thomas Szoke

Thomas R. Szoke serves as Chief Solutions Architect and a Director of the Company. Mr. Szoke is a co-founder of Innovation in Motion ("IIM") a predecessor of Ipsidy and has over 25 years of product engineering, global sales and operations management experience. He has held several executive positions in the Company and has successfully led it from its inception to its listing on the OTC Market as well as expanding its market presence and product portfolio through strategic acquisitions in the United States, South America and Africa. Mr. Szoke pioneered the concept and development of certain product lines as well as its Multi-Factor Out-of-Band Identity and Transaction Authentication Platform.

Prior to founding IIM, Mr. Szoke spent 23 years with Motorola, Inc. holding various management positions in field and product engineering, systems integration, program management and sales. He spent the last 10 years of his career at Motorola in the Biometrics Industry as Director of Integration and Project Management and then Director of Global Business Development for Civil Biometrics. From 2008-2011, Mr. Szoke was President of Thomas Szoke LLC, a technology consulting company focused on identity management and secure credentialing solutions. Mr. Szoke holds a degree in Electrical Engineering and Applied Mathematics from the University of Akron, in Ohio and is fluent in Hungarian.

Christopher White

Chris White was appointed Chief Technology Officer in January 2020. Mr. White joined the Company in 2018, initially as Director Dev-Ops, and was promoted to SVP Engineering in February 2019. In those roles he was responsible for the Company's payments and mobile solutions application development. Prior to joining Ipsidy from 2016 to 2018, Mr. White served as Software Engineering Director at NCR Corporation and was responsible for development and maintenance of retail location management and point-of-sale systems for the petroleum industry. From 2015 to 2016 he was Director, Software Device & Tools at Verifone responsible for SDK's, which were used by internal and third-party developers to develop software on Verifone devices. Prior to joining Verifone, Chris White was at Ingenico from 2011 to 2015, rising to VP of Core Engineering, where he was responsible for North American payment systems. Mr. White is a veteran of the United States Marine Corps in which he served honorably from 1991-1996 and received multiple certifications in electronics.

Board & Committees

Board meetings during calendar year ended 2020

During 2020, the Board of Directors held thirteen meetings as well as committee meetings, as outlined below. Each director attended all of the meetings of the Board and all of the meetings held by all committees on which such director served. The Board also approved certain actions by unanimous written consent.

Committees established by the Board

The Board of Directors has standing Audit, Compensation, and Governance Committees. Information concerning the function of each Board committee follows.

Audit Committee

The Audit Committee is responsible for overseeing management's implementation of effective internal accounting and financial controls, supervising matters relating to audit functions, reviewing and setting internal policies and procedures regarding audits, accounting and other financial controls, reviewing the results of our audit performed by the independent public accountants, and evaluating and selecting the independent public accountants. The Audit Committee has adopted an Audit Committee Charter which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at <http://www.ipsidy.com>. The Board has not designated a member as the "audit committee financial expert" as defined by the SEC, which is not required at this time. During 2020, the Audit Committee held five conference call meetings.

Compensation Committee

The Compensation Committee determines matters pertaining to the compensation of our named executive officers and administers our stock option and incentive compensation plans. The Compensation Committee has adopted a Compensation Committee Charter which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at <http://www.ipsidy.com>. During 2020, the Compensation Committee held two meetings through conference calls.

Governance Committee

The Governance Committee is responsible for considering potential Board members, nominating Directors for election to the Board, implementing the Company's corporate governance policies, recommending compensation for the Board and for all other purposes outlined in the Governance Committee Charter, which is posted on our Corporate Governance landing page under the tab labeled "Investors" on our website at <http://www.ipsidy.com>. During 2020, the Governance Committee did not hold any meetings.

Nomination of Directors

As provided in its charter, the Governance Committee is responsible for identifying individuals qualified to become directors. The Governance Committee seeks to identify director candidates based on input provided by a number of sources including (1) the Governance Committee members, (2) our other directors, (3) our stockholders, (4) our Chief Executive Officer or Chair of the Board, and (5) third parties such as service providers. In evaluating potential candidates for director, the Governance Committee considers the entirety of each candidate's credentials.

Qualifications for consideration as a director nominee may vary according to the particular areas of expertise being sought as a complement to the existing composition of the Board of Directors. However, at a minimum, candidates for director must possess:

- high personal and professional ethics and integrity;
- the ability to exercise sound judgment;
- the ability to make independent analytical inquiries;
- a willingness and ability to devote adequate time and resources to diligently perform Board and committee duties; and
- the appropriate and relevant business experience and acumen.

Legal Proceedings

There are currently no legal proceedings, and during the past 10 years there have been no legal proceedings, that are material to the evaluation of the ability or integrity of any of our directors.

Family Relationships

There are no family relationships among our directors and executive officers. There is no arrangement or understanding between or among our executive officers and directors pursuant to which any director or officer was or is to be selected as a director or officer.

Involvement in Certain Legal Proceedings

To our knowledge, during the last ten years, none of our directors and executive officers has:

- Had a bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time.
- Been convicted in a criminal proceeding or been subject to a pending criminal proceeding, excluding traffic violations and other minor offenses.
- Been subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities.
- Been found by a court of competent jurisdiction (in a civil action), the SEC, or the Commodities Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended or vacated.
- Been the subject to, or a party to, any sanction or order, not subsequently reverse, suspended or vacated, of any self-regulatory organization, any registered entity, or any equivalent exchange, association, entity or organization that has disciplinary authority over its members or persons associated with a member.

Code of Ethics

We have adopted a Code of Business Conduct and Ethics Policy (the “Code of Ethics”) that applies to all directors and officers. The Code of Ethics describes the legal, ethical and regulatory standards that must be followed by the directors and officers of the Company and sets forth high standards of business conduct applicable to each director and officer. As adopted, the Code of Ethics sets forth written standards that are designed to deter wrongdoing and to promote, among other things:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- compliance with applicable governmental laws, rules and regulations;
- the prompt internal reporting of violations of the Code of Ethics to the appropriate person or persons identified in the code; and
- accountability for adherence to the Code of Ethics.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers and persons who own more than 10% of the issued and outstanding shares of our common stock to file reports of initial ownership of common stock and other equity securities and subsequent changes in that ownership with the SEC. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file. To our knowledge, based solely on a review of the copies of such reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 31, 2020 all Section 16(a) filing requirements applicable to our officers, directors and greater than 10% beneficial owners were complied with.

Item 11. Executive Compensation

The below table sets forth information concerning all cash and non-cash compensation awarded to, earned by or paid to (i) all individuals serving as the Company’s principal executive officers or acting in a similar capacity during the last two completed fiscal years, regardless of compensation level, and (ii) the Company’s two most highly compensated executive officers other than the principal executive officers serving at the end of the last two completed fiscal years (collectively, the “Named Executive Officers”).

SUMMARY COMPENSATION TABLE

<u>Name and</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Stock</u>	<u>Option</u>	<u>Other</u>	<u>Total</u>
		<u>(\$)</u>	<u>(\$)</u>	<u>Awards</u>	<u>Awards</u>	<u>Compensation</u>	<u>(\$)</u>
				<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>	<u>(\$)</u>
Phillip Kumnick	2020	85,813	64,980	127,500	1,033,333		1,311,626
Chairman of the Board. CEO and President ⁽¹⁾	2019	-	-	-	-	-	-
Philip Beck	2020	138,889	-	-	-	308,104	446,993
Former Chairman of the Board. CEO and President ⁽²⁾	2019	350,000	-	-	-	-	350,000
Thomas Szoke	2020	275,000	-	-	-	-	275,000
Chief Solutions Architect and Director	2019	275,000	-	-	-	-	275,000
Stuart Stoller	2020	237,500	-	-	127,500	-	365,000
CFO ⁽⁴⁾	2019	234,375	-	-	-	-	234,375

(1) Mr. Kumnick was hired on May 22, 2020 and as part of his compensation package was granted 33,333,334 stock options of which 20% vest at grant date and the balance vest subject to performance conditions. As of December 31, 2020, 6,666,666 of the stock options were vested and exercisable, and the performance conditions for remaining stocks options were not met. In December 2019, Mr. Kumnick was granted 3,000,000 stock options in connection with his appointment to the Board of Directors. Additionally, in March 2020, Mr. Kumnick was granted 1,500,000 shares of restricted stock which shares vest upon attainment of certain performance thresholds. The stock option aggregate grant date fair value was \$1,033,333. There award aggregate grant date fair value was \$127,500. The performance criteria for vesting of the restricted stock were not met. Mr. Kumnick has not exercised or realized a gain on these options as of the date of the submission of this report. Furthermore, the bonus of \$64,980 will only earned upon meeting certain performance criteria.

(2) Mr. Beck was hired on January 31, 2017 and as part of his compensation package was granted 15,000,000 stock options which vest 1/3 immediately effective January 31, 2017 with the balance over two years and 15,000,000 shares of restricted stock which shares vest upon attainment of certain performance thresholds. As of December 31, 2020, all shares under the options vested and were exercisable, but none of the restricted stock were exercisable. Mr. Beck has not exercised or realized a gain on these options as of the date of the submission of this report.

On May 22, 2020, the Company and Mr. Beck entered into a separation letter agreement, which provided for payment to Mr. Beck of one year’s severance in the amount of \$350,000 plus the cost of medical benefits, payable in accordance with the terms of Mr. Beck’s Retention Agreement. During 2020, the Company paid \$287,500 plus his monthly medical insurance premiums. The remaining \$87,500 was paid in February 2021. On October 30, 2020, pursuant to the terms of Mr. Beck’s Restricted Stock Agreement, as amended by the Separation Agreement, the Company repurchased for \$1.00 the 15,000,000 shares of Unvested Restricted Stock.

- (3) In 2020, Mr. Szoke was appointed Chief Solutions Architect. In 2019, Mr. Szoke was paid a bonus of \$36,667 earned in 2018 for attaining the performance targets as set forth in his employment agreement.
- (4) Mr. Stoller was hired on January 31, 2017 and as part of his compensation package was granted 5,000,000 stock options which vest over three years and 5,000,000 shares of restricted stock which shares vest upon attainment of certain performance criteria. In October 2020, Mr. Stoller was granted 2,500,000 stock options which vest over three years. The aggregate grant date fair value was of the 2020 stock grant was \$127,500. As of December 31, 2020, 5,000,000 of the stock options granted were vested and exercisable and the restricted stock was not exercisable. Mr. Stoller has not exercised or realized a gain on these options as of the date of the submission of this report.

Mr. Szoke and Mr. Stoller each are party to an Executive Retention Agreement to encourage the Executive to continue to devote the Executive's full attention and dedication to the success of the Company, and to provide specification compensation and benefits to the Executive in the event of a Termination Upon Change of Control or certain other terminations pursuant to the terms of this Agreement. These agreements include payment of salary and other benefits for one year in addition to acceleration and vesting of certain stock compensation plans.

Pursuant to the Executive Retention Agreements, as more fully described below, certain executive officers could earn additional compensation if certain performance thresholds were met. The targets for Mr. Szoke and Stoller were not met in 2020 and 2019. No other incremental compensation targets for any executive were met in 2020 and 2019. However, the Board of Directors may allocate salaries and benefits to the officers in its sole discretion.

The Company currently has no retirement, pension, or profit-sharing plan covering its officers and directors; The Company provide medical benefits on a cost sharing basis and has a dental plan which is fully paid by the employees cost. See "Executive Agreements" below.)

Grant of Plan-Based Awards

During the calendar year ended December 31, 2020, the following grants were made to the named executive officers.

- Mr. Kumnick in connection with his employment agreement was granted 33,333,334 stock options of which 20% were vest at grant date and the balance vest subject to performance conditions. Mr. Kumnick was also granted 1,500,000 shares of restricted stock which shares vest upon attainment of certain performance thresholds.
- In October 2020, Mr. Stoller was granted 2,500,000 stock options which vest over three years.

As previously described, in connection with their respective employment arrangements, Philip Beck and Stuart Stoller were awarded 15,000,000 and 5,000,000 common stock options in 2017. Additionally, Philip Beck and Stuart Stoller received 15,000,000 and 5,000,000 restricted common shares in 2017. On October 30, 2020, pursuant to the terms of Mr. Beck's Restricted Stock Agreement, as amended by the Separation Agreement, the Company repurchased for \$1.00 the 15,000,000 shares of Unvested Restricted Stock

There were no other grants of plan-based awards or common stock options, to other named executive officers during the year ended December 31, 2020.

Outstanding Equity Awards to Executive Officers

The following table sets forth information with respect to outstanding equity awards held by our named executive officers as of December 31, 2020.

	Option Awards					Stock awards			
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of shares or units of stock that have not vested	Market value of shares or units of stock that have not vested	Equity Incentive Plan Awards: Number of unearned shares or units of stock or rights that have not vested	Equity Incentive Plan Awards: Market or payout of unearned shares, units or other rights that have not vested
(a)	(b)	(c)	(d)	e	(f)	(g)	(h)	(i)	(j)
Executive Officer									
Phillip Kumnick ⁽¹⁾	6,666,667	26,666,667	-	\$0.07 per share	May 22, 2030	1,500,000	204,000	-	-
Phillip Kumnick	1,000,000	2,000,000	-	\$0.055 per share	December 9, 2029	-	-	-	-
Philip Beck ⁽²⁾	17,000,000	-	-	\$0.05 per share	August 12, 2026	-	-	-	-
Philip Beck	15,000,000	-	-	\$0.10 per share	January 31, 2027	-	-	-	-
Stuart Stoller ⁽¹⁾	5,000,000	-	-	\$0.10 per share	January 31, 2027	5,000,000	680,000	-	-
Stuart Stoller	-	2,500,000	-	\$0.0925 per share	October 6, 2030	-	-	-	-
Thomas Szoke	10,000,000	-	-	\$0.45 per share	September 25, 2025	-	-	-	-

- (1) The performance criteria for 26,666,667 stock options for Phillip Kumnick and restricted stock awards to Phillip Kumnick and Stuart Stoller have not been met as of December 31, 2020.
- (2) The amounts for Philip Beck include previously awarded common stock options for consulting services rendered prior to his employment (17,000,000 stock options) which became exercisable on January 31, 2017 upon his appointment as the Chief Executive Officer of the Company. The consulting services were provided by Parity Labs, LLC, a company principally owned by Mr. Beck and his family.

Compensation of Directors

The non-management Directors consisting of the Board of Directors earn \$72,000 per annum for Board membership, inclusive of all Board meeting and committee meeting attendance fees in the form of a stock grant and they earn an additional annual retainer for service on each committee of \$5,000. The Company has recorded the expense associated with Board Compensation but has not granted or paid fees since October 2019. Total board compensation recorded in 2020 was approximately \$349,000 of which \$47,000 was the retainer for Board Committees and the balance of \$302,000 was the retainer for service on the Board. Mr. Stern and Mr. Selzer each earned \$15,000, Mr. Kumnick and Mr. Beck each earned \$6,250, Mr. Broenniman earned \$3,750 and Mr. Solomon \$833.

The non-management directors in 2020 were as follows:

- Herb Selzer and Theodore Stern for all of 2020.
- Phillip Kumnick until May 22, 2020 when he was appointed Chief Executive Officer of the Company.
- Philip Broenniman who was appointed in March 2020 until he was appointed President of the Company on May 22, 2020.
- Philip Beck from May 22, 2020 (former Chief Executive Officer) until he resigned from the Board of Directors in October 2020.
- Ricky Solomon – January 2020 until he resigned from the Board of Directors.

The non-management Board of Directors will be compensated for their service in 2020 through the issuance of stock compensation after the next Annual Meeting.

During 2019, the Company recorded expense of \$40,000 for the annual retainer for service on Board. The amounts recorded for Mr. Selzer, Mr. Stern and Mr. Solomon for the annual retainer for service on Board committees was \$15,000, \$15,000, and \$10,000 in addition to their stock compensation of \$72,000 each per annum. Total board compensation recorded in 2019 was approximately \$256,000.

On his appointment Mr. Kumnick received a grant of an option to purchase 3,000,000 shares of common stock vesting in equal parts over three years, or earlier in the event of a change of control of the Company (as defined in the option grant). In March 2020, the Company entered into a restricted stock purchase agreement with Phillip Kumnick, providing Mr. Kumnick with the right to acquire 1,500,000 shares of common stock at par value subject to the Vesting Criteria (as defined in the stock purchase agreement). On his appointment, the Company entered into a restricted stock purchase agreement with Philip Broenniman, providing Mr. Broenniman with the right to acquire 1,500,000 shares of common stock at par value subject to the Vesting Criteria.

Executive Employment Agreements

On May 22, 2020, Phillip L. Kumnick, Deputy Chairman of the Company, was appointed as Chief Executive Officer of the Company. Philip R. Broenniman, a director of the Company, was appointed as Chief Operating Officer and President of the Company. On December 31, 2020 effective May 22, 2020, Mr. Kumnick and Mr. Broenniman each entered into Offer Letters with the Company providing that each of the executives will devote their full time and attention to the business of the Company on an “at will” basis.

Pursuant to the Offer Letter entered with Mr. Kumnick, Mr. Kumnick base salary since his engagement was \$125,000 per annum and was increased to \$187,500 per annum as of November 1, 2020. Subject to the Company achieving a revenue target of not less than \$8,000,000 in a fiscal year (the “Revenue Target”), the base salary is to be increased to \$250,000 per annum and to be again further reviewed by the Compensation Committee based on prevailing market conditions. Further, upon achieving the Revenue Target or a portion thereof or in the event of a change of control or involuntary termination, Mr. Kumnick will receive a bonus of up to \$64,980. Mr. Kumnick is also eligible to receive the usual benefits available to the executives of the Company.

Pursuant to the Offer Letter entered with Mr. Broenniman, Mr. Broenniman base salary since his engagement was \$87,500 per annum and was increased to \$131,250 per annum as of November 1, 2020. Subject to the Company achieving the Revenue Targets, the base salary is to be increased to \$175,000 per annum and to be again further reviewed by the Compensation Committee based on prevailing market conditions. Further, upon achieving the Revenue Target or a portion thereof or in the event of a change of control or involuntary termination, Mr. Broenniman will receive a bonus of up to \$45,833. Mr. Broenniman is also eligible to receive the usual benefits available to the executives of the Company.

In May 2020, Mr. Kumnick was granted options to acquire 33,333,334 shares of common stock and Mr. Broenniman was granted options to acquire 16,666,666 shares of common stock. 20% of the options were vested at grant and the balance vest subject to performance conditions.

On January 31, 2017, Mr. Beck and the Company entered an Executive Retention Agreement pursuant to which Mr. Beck agreed to serve as Chief Executive Officer and President in consideration of an annual salary of \$350,000 of which \$50,000 shall be deferred until the Company raises in the aggregate \$15 million in debt and/or equity capital. The Company has agreed to provide a bonus of 75% of the base salary upon the Company timely filing its annual report on Form 10-K for the year ended December 31, 2017 and the Company raising gross proceeds of \$15 million in debt and/or equity capital (“Milestone 1”) and a bonus of 150% of the base salary upon the Company achieving (i) any merger or sale of the Company or its assets, (ii) the Company achieving adjusted EBITDA of \$10 million in a fiscal year, (iii) the Company achieving a listing on a national exchange and then or subsequently raising gross proceeds in the amount of \$10 million or achieving a valuation of \$125 million or (iv) the Company achieving \$20 million of revenue on a trailing 12 months basis (“Milestone 2”).

The Company also granted Mr. Beck a Stock Option to acquire 15 million shares of common stock of the Company at an exercise price of \$0.10 per share for a period of ten years and the Company agreed to a Restricted Stock Purchase Agreement with Mr. Beck pursuant to which Mr. Beck purchased 15 million shares of common stock at a per share price of \$0.0001, which shares of common stock vest upon achieving Milestone 2. The Stock Options vest with respect to (i) one-third of the shares of common stock as of January 31, 2017 and (ii) in 24 equal monthly tranches commencing on the grant date.

On May 22, 2020, the Company and Mr. Beck entered into a separation letter agreement, which provided for payment to Mr. Beck of one year's severance in the amount of \$350,000 as well as certain employee benefits, payable in accordance with the terms of Mr. Beck's Retention Agreement. During 2020, the Company paid \$287,500 plus his monthly medical insurance premiums. The remaining \$87,500 was paid in February 2021. On October 30, 2020, Philip Beck resigned as a director of the Company and the Company repurchased Mr. Beck's restricted stock for \$1.00 under the provisions of his Restricted Stock Agreement.

On January 31, 2017, Mr. Szoke and the Company entered into an Executive Retention Agreement pursuant to which Mr. Szoke agreed to serve as Chief Technology Officer in consideration of an annual salary of \$250,000. The Company has agreed to provide a bonus of up to 50% of the base salary in 2017 upon the Company achieving a gross margin to be mutually agreed upon by the Company and Mr. Szoke and a bonus of 75% of the base salary upon the Company achieving Milestone 2. The Company and Mr. Szoke entered into an Indemnification Agreement on January 31, 2017. Mr. Szoke's annual salary was increased in late 2017 to \$275,000 per year. Mr. Szoke did not meet the 2017 bonus requirement.

The Company entered an Executive Retention Agreement with pursuant to which Stuart Stoller agreed to serve as Chief Financial Officer in consideration of an annual salary of \$225,000. The Company has agreed to provide two different bonus levels upon the achievement of certain performance, financial and other milestones. The Company also granted Mr. Stoller a stock option to acquire 5 million shares of common stock at an exercise price of \$0.10 per share for a period of ten years. Further, Company has agreed to a Restricted Stock Purchase Agreement in which Mr. Stoller purchased an additional 5 million shares at a per share price of \$0.0001, which shares of common stock vest upon meeting certain performance, financial and other milestones. The Stock Options vest with respect to (i) one third of common stock upon the anniversary of the grant date and (ii) in 24 equal installments commencing on the one year anniversary of the grant.

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

The following table sets forth the number of shares known to be beneficially owned by all persons who own at least 5% of Ipsidy's outstanding common stock, the Company's directors, the Company's executive officers, and the directors and executive officers as a group as of February 28, 2021, unless otherwise noted. Unless otherwise indicated, the stockholders listed in the table have sole voting and investment power with respect to the shares indicated.

<u>Name</u>	<u>Position</u>	<u>Number of Shares of Common Stock</u>	<u>Percentage of Common Stock ⁽¹⁾</u>
Officers & Directors			
Theodore Stern	Director	34,674,814 ⁽²⁾	5.6%
Thomas Szoke	Director & Chief Solutions Architect	32,083,317 ⁽³⁾	5.3%
Philip Broenniman	Director, President & COO	24,544,714 ⁽⁴⁾	4.0%
Phillip Kumnick	Chairman & CEO	19,833,334 ⁽⁵⁾	3.1%
Stuart Stoller	Chief Financial Officer	10,312,500 ⁽⁶⁾	1.7%
Herb Selzer	Director	9,665,084 ⁽⁷⁾	1.6%
Christopher White	CTO	833,333 ⁽⁸⁾	0.1%
Total owned by executive officers and directors		131,947,096	21.4%
>5% Stockholders			
Stephen Garchik	Shareholder	52,849,970 ⁽⁹⁾	8.8%
Andras Vago	Shareholder	47,368,260 ⁽¹⁰⁾	8.0%
Douglas Solomon	Shareholder	35,037,302 ⁽¹¹⁾	5.7%
Eric Rand	Shareholder	34,494,191 ⁽¹²⁾	5.7%
Philip Beck	Shareholder	32,243,717 ⁽¹³⁾	5.2%
Total owned by executive officers, directors and 5% stockholders		333,940,536	54.8%

- (1) Applicable percentage ownership is based on 593,952,012, shares of common stock outstanding as of February 28, 2021. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Shares of common stock that are currently exercisable or exercisable within 60 days of are deemed to be beneficially owned by the person holding such securities for computing the percentage of ownership of such person, but are not treated as outstanding for computing the percentage ownership of any other person.
- (2) Includes (i) 5,885,445 shares of common stock, (ii) 8,166,667 shares of common stock held by Theodore Stern Revocable Trust, (iii) a common stock purchase warrant to acquire 250,000 shares of common stock at \$0.15 per share and (iv) 20,372,702 shares of common stock that may be issued upon the conversion of principal and interest accrued as of April 29, 2021 under the Stern Note, which is held by the Theodore Stern Revocable Trust.
- (3) Includes (i) 19,083,317 shares of common stock, (ii) 3,000,000 shares held by Mr. Szoke's wife, and (iii) a stock option to acquire 10,000,000 shares of common stock at an exercise price of \$0.45 per share.
- (4) Includes (i) 3,682,412 shares of common stock, (ii) 1,500,000 shares of restricted common stock that vest upon meeting performance criteria. The performance criteria have not been met as of February 28, 2021, (iii) a stock option to acquire 16,666,666 shares of common stock at \$0.07 per share, of which 8,666,666 are vested and the remainder vest upon meeting performance criteria. The performance criteria have not been met as of February 28, 2021, (iv) common stock purchase warrants to acquire 350,000 shares of common stock at \$0.165 per share and 262,500 shares of common stock at \$0.088 per share, (v) 9,153,969 shares of common stock held by Varana Capital Focused L.P. ("VCFLP") and a common stock purchase warrant to acquire 929,167 shares of common stock at \$0.15 per share held by VCFLP. Mr. Broenniman is the Managing Partner of Varana Capital, LLC, which, in turn, is the investment manager of and has dispositive control over the shares held by VCFLP. By virtue of these relationships, in addition to the shares he holds personally, Mr. Broenniman may be deemed to beneficially own the shares held by VCFLP.
- (5) Includes (i) 1,500,000 shares of restricted common stock that vest upon meeting performance criteria. The performance criteria have not been met as of February 28, 2021, (ii) a stock option to acquire 3,000,000 shares of common stock at \$0.055 per share vesting over a three year period, of which 1,000,000 have vested as of February 28, 2021 and (iii) a stock option to acquire 33,333,334 shares of common stock at \$0.07 per share, of which 17,333,334 are vested and the remainder vest upon meeting performance criteria. The performance criteria have not been met as of February 28, 2021.
- (6) Includes (i) 312,500 shares of common stock (ii) a stock option to acquire 5,000,000 shares of common stock at \$0.10 per share, (iii) 5,000,000 restricted stock common shares that vest upon meeting performance criteria. The performance criteria have not been met as of February 28, 2021 and (iv) stock options to acquire 2,500,000 shares of common stock at a price of \$0.0925 per share which vest as to one-third on each of October 7, 2021, 2022 and 2023.
- (7) Includes (i) 5,594,714 shares of common stock, (ii) stock options to acquire 400,000 shares of common stock at an exercise price of \$0.10 per share, (iii) 812,592 shares of common stock arising on conversion of principal and interest accrued as of April 29, 2021 under a 2020 Note and (iv) 2,417,778 shares of common stock held by Vista PBG Associates, LLC ("Vista"), a company of which Mr. Selzer is the manager and a common stock purchase warrant to acquire 440,000 shares of common stock at an exercise price of \$0.15 per share held by Vista. Mr. Selzer may be deemed to beneficially own the shares held by Vista.
- (8) Includes (i) 500,000 shares of common stock, (ii) 250,000 shares of restricted common stock which vest June 3, 2021 (iii) stock options to acquire 250,000 shares of common stock at a price of \$0.119 per share which vest as follows: (a) 125,000 upon achievement of agreed performance goals and (b) 125,000 as to one-third on each of February 18, 2020, 2021 and 2022 and (iv) stock options to acquire 2,500,000 shares of common stock at a price of \$0.0925 per share which vest as to one-third on each of October 7, 2021, 2022 and 2023.

- (9) Includes (i) 45,937,008 shares of common stock, (ii) 4,062,962 shares of common stock arising on conversion of principal and interest as of April 29, 2021 under a 2020 Note, (iii) Garchik Universal Limited Partnership, which Mr. Garchik jointly controls with his sister, holds 350,000 shares of common stock, and (iv) a common stock purchase warrant to acquire 2,500,000 shares of common stock at \$0.15 per share.
- (10) Includes 3,200,000 shares held by Multipolaris Corporation, 24,968,260 shares held by Interpolaris Pte. Ltd. and 19,200,000 held by MP Informatikai Kft. Mr. Vago is an officer and principal of each of these entities, and he may be deemed the beneficial owner of the shares held by such entities.
- (11) Includes (i) 15,037,302 shares of common stock and (ii) a stock option to acquire 20,000,000 shares of common stock at an exercise price of \$0.45 per share
- (12) Includes (i) 24,124,857 shares of common stock, (ii) a common stock purchase warrant to acquire 10,000,000 shares of common stock at \$0.10 per share and (iii) a common stock purchase warrant to acquire 369,334 shares of common stock at \$0.15 per share.
- (13) Includes (i) 1,340,833 shares of common stock, (ii) a stock option to acquire 15,000,000 shares of common stock at \$0.10 per share, and (iii) 1,902,884 shares of common stock and a stock option to acquire 14,000,000 shares of common stock at \$0.05 per share held by Parity Labs LLC, a private consulting firm which is principally owned by Mr. Beck

See Item 5 for information pertaining to Securities Authorized for Issuance under Equity Compensation Plans.

Item 13. Certain Relationships and Related Transactions and Director Independence

The Company is admitted to the OTCQB tier of OTC Markets, but as a company that is required to file reports with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, the Company is not required under the rules mandated by OTC Markets for US companies to comply with the Director Independence standard, which requires certain companies maintain a Board that has at least two independent directors and an Audit Committee, a majority of the members of which are independent directors. However, the Company is voluntarily complying with such standard. Pursuant to Rule 4200 of The NASDAQ Stock Market one of the definitions of an independent director is a person other than an executive officer or employee of a company. The Company's board of directors has reviewed the materiality of any relationship that each of the directors has with the Company, either directly or indirectly. Based on this review the board has determined that there are two (2) independent directors, including all the members of the Audit Committee.

In connection with the Company's ability to secure third-party financing, during the year ended December 31, 2019, the Company paid Network 1 cash fees of approximately \$110,000 and issued Network 1 and issued 858,000 common stock purchase warrants at a price of \$0.088 cents per share. In connection with the offering of the 2020 Notes and the sale of common stock in the fourth quarter of 2020, the Company paid Network 1 Financial Securities, Inc., a registered broker-dealer ("Network 1"), a cash fee of approximately \$471,800. A former member of the Company's Board of Directors maintains a partnership with a principal of Network 1.

On August 10, 2016, the Company entered into a Letter Agreement (the "Amendment") with Parity Labs, LLC ("Parity"), a company principally owned by Mr. Beck (former director and CEO) and his family, to amend the compensation section of that certain Advisory Agreement previously entered into between the Company and Parity on November 16, 2015 for the provision of strategic advisory services, to provide for the issuance to Parity of a common stock option (the "Parity Option") to acquire 20,000,000 shares of common stock of the Company exercisable at \$0.05 per share for a period of ten years. The Parity Option vested in entirety upon Mr. Beck becoming the Chief Executive Officer of Ipsidy, Inc. on January 31, 2017. The Company's headquarters are located in Long Beach, New York where the Company currently leases offices on a month-to-month basis. The facilities are managed by Bridgeworks LLC, ("Bridgeworks") a company providing office facilities to emerging companies, principally owned by Mr. Beck and his family. The arrangement with Bridgeworks LLC allows the Company to use offices and conference rooms for a fixed, monthly fee. Since 2014, Mr. Beck has served as managing member of Parity, and since 2016, as Chairman, a Member and co-founder of Bridgeworks. During 2020 and 2019, the Company paid Bridgeworks \$52,500 and \$89,100, respectively in each year for the use of the facilities.

In June 2019, two of the Company's Directors and one Officer purchased 1,562,500 shares of common stock of the 2019 of the common stock offering.

In December 2019 Mr. Beck Chairman and CEO of the Company purchased \$25,000 of 8% Notes.

In February 2020, Mr. Beck, Mr. Selzer and Mr. Stern purchased \$50,000, \$100,000 and \$50,000 respectively of 2020 Notes. In addition, Mr. Stern is a trustee of the Stern Trust whose Stern Note was amended and restated as part of the 2020 Notes Offering. A comprehensive disclosure of the 2020 Notes can be found in Note 7 to the Consolidated Financial Statements for the Year Ended December 31, 2020.

In March 2020, the Company granted 1,500,000 shares of Restricted Common Stock to each of Phillip Kumnick and Philip Broenniman, new members of our Board of Directors, in connection with their compensation for service as Board Members. The restricted stock vests upon the achievement of certain performance criteria. The performance criteria have not been met as of December 31, 2020.

Mr. Phillip Kumnick and Mr. Philip Broenniman, two of the Company's Director's became employed by the Company as Chief Executive Officer and President and Chief Operating Officer effective May 22, 2020. Mr. Kumnick earned an initial base salary of \$125,000 per annum which was increased to \$187,500 per annum as of November 1, 2020 and is subject to review after one year. Mr. Kumnick was granted options to acquire 33,333,334 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions. Mr. Broenniman earned an initial base salary of \$87,500 per annum which was increased to \$131,250 as of November 1, 2020 and is subject to review after one year. Mr. Broenniman was granted options to acquire 16,666,666 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's warrants exercisable at per share price of \$0.10 (the "\$0.10 Warrants") were exercised for cash at an exercise price of \$0.07 per share. In addition, the holders that exercised the \$0.10 Warrants received a warrant exercisable for two years to acquire one share of common stock at an exercise price of \$0.15 per share (the "\$0.15 Warrants") for every four \$0.10 Warrants exercised. Mr. Theodore Stern, a director of the Company, participated in the private transaction resulting in the issuance of 1,000,000 shares of common stock and 250,000 \$0.15 Warrants in consideration of \$70,000; and Varana Capital Focused, LP ("VCFLP"), participated in the private transaction resulting in the issuance of 3,716,667 shares of common stock and 929,167 \$0.15 Warrants, in consideration of \$260,167. Mr. Philip Broenniman, a director, the President and COO of the Company is the investment manager of VCFLP.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s warrants exercisable at per share price of \$0.06 (the “\$0.06 Warrants”) were exercised. In addition, the holders that exercised the \$0.06 Warrants also received a \$0.15 Warrant for every two \$0.06 Warrants exercised. Vista Associates, L.P., (“Vista”) of which, Mr. Herbert Selzer a director of the Company, is the General Partner, participated in the private transaction resulting in the issuance of 880,000 shares of common stock and 440,000 \$0.15 Warrants, in consideration of \$52,800.

On June 30, 2020, the Company also entered into a Subscription Agreement with VCFLP pursuant to which VCFLP purchased 714,285 shares of common stock in consideration of \$50,000.

Item 14. Principal Accounting Fees and Services.

The aggregate fees incurred for each of the last two years for professional services rendered by Cherry Bekaert, LLP, the independent registered public accounting firm for the audit of the Company’s annual financial statements included in the Company’s Form 10-K and review of financial statements for its quarterly reports (Form 10-Q) are reported below.

The total fees paid to Cherry Bekaert, LLP in 2020 aggregated \$230,500 which includes fees for the 2020 audited financial statements and review of the quarterly financial statements for 2020. Additionally, the company paid Cherry Bekaert, LLP \$5,000 for services associated with the updated filing of the Company’s S-1.

The total fees billed by Cherry Bekaert, LLP in 2019 aggregated \$250,000 which includes fees for the audit of financial statements and review of the quarterly financial statements for 2019. Additionally, the company paid Cherry Bekaert, LLP \$16,000 for services associated with the filing of the Company’s S-1.

The Audit Committee by its Charter pre-approves all audit services to be provided to the Company, whether provided by the principal auditor or other firms, and all other services (review, attest and non-audit) to be provided to the Company by the independent auditor. The Audit Committee approved the services rendered for the audit of the financial statements for the year ended December 31, 2020 and December 31, 2019 in addition to the services rendered for the filing of the quarterly financial statements on Form 10-Q in 2020 and 2019.

	<u>Audit</u>	<u>Taxes</u>	<u>Filings</u>	<u>Accounting</u>	<u>\$’s in 000’s Total</u>
2020	\$ 225.5	\$ —	\$ 5.0	\$ —	\$ 230.5
2019	\$ 234.0	\$ —	\$ 16.0	\$ —	\$ 250.0

The current policy of the directors, acting via the Audit Committee, is to approve the appointment of the principal auditing firm and any permissible audit-related services. The audit and audit related fees include fees for the annual audit of the financial statements and review of financial statements included in 10K and Q filings.

<u>Exhibit Number</u>	<u>Description</u>
2.1	(1) <u>Agreement and Plan of Reorganization</u>
3.1	(2) <u>Certificate of Incorporation</u>
3.2	(37) <u>Amended & Restated By-laws</u>
3.3	(3) <u>Certificate of Ownership and Merger</u>
3.4	(4) <u>Certificate of Amendment to the Certificate of Incorporation dated February 1, 2017</u>
3.5	(5) <u>Certificate of Amendment to the Certificate of Incorporation dated October 3, 2017</u>

- 4.1 (6) Stock Option dated May 28, 2015 issued to Ricky Solomon
- 4.2 (7) Common Stock Purchase Warrant issued to Ricky Solomon
- 4.3 (8) Form of Common Stock Purchase Warrant issued to the 2015 Accredited Investors
- 4.4 (9) Stock Option dated September 25, 2015 issued to Herbert M. Seltzer
- 4.5 (10) Common Stock Purchase Warrant issued to ID Solutions Inc.
- 4.6 (11) Stock Option issued to Thomas Szoke dated September 25, 2015
- 4.7 (11) Stock Option issued to Douglas Solomon dated September 25, 2015
- 4.8 (11) Stock Option issued to Maksim Umarov dated September 25, 2015
- 4.9 (12) Form of Common Stock Purchase Warrant issued to the 2015 Accredited Investors
- 4.10 (13) Form of Common Stock Purchase Warrant issued to the April 2016 Accredited Investors
- 4.11 (14) Stock Option issued to Parity Labs, LLC
- 4.12 (15) Stock Option Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017
- 4.13 (4) Stock Option Agreement entered between the Company and Philip D. Beck dated January 31 2017
- 4.14 (29) Letter Agreement between Ipsidy Inc. and Theodore Stern Revocable Trust dated April 30, 2018.
- 4.15 (30) Form of Subscription Agreement by and between Ipsidy Inc. and the August 2018 Accredited Investors
- 4.16 (31) Form of Subscription Agreement by and between Ipsidy Inc. and the June 2019 Accredited Investors
- 4.17 (32) Letter Agreement between The Theodore Stern Revocable Trust and Ipsidy Inc. dated December 13, 2019
- 4.18 (32) Form of Securities Purchase Agreement entered between Ipsidy Inc. and the 8% Note Investors
- 4.19 (32) Form of 8% Convertible Note
- 4.20 (33) Form of 15.0% Convertible Note
- 4.21 (33) Amended and Restated Promissory Note issued to The Theodore Stern Revocable Trust
- 4.22 (35) Paycheck Protection Program Term Note dated May 6, 2020
- 10.1 (16) Assignment of Patents
- 10.2 (16) Assignment of Patents
- 10.3 (16) Assignment of Patents
- 10.4 (17) The ID Global Solutions Corporation Equity Compensation Plan
- 10.5 (18) Share Purchase Agreement by and between ID Global Solutions Corporation and the Multipay S.A. Shareholders

- 10.6 (6) Director Agreement by and between ID Global Solutions Corporation and Ricky Solomon dated May 28, 2015
- 10.7 (19) Director Agreement by and between ID Global Solutions Corporation and Herbert M. Seltzer dated September 25, 2015
- 10.8 (20) Employment Agreement between ID Global Solutions Corporation and Maksim Umarov dated July 1, 2015
- 10.9 (21) Letter Agreement entered between ID Global Solutions Corporation and Maksim Umarov dated September 25, 2015
- 10.10 (22) Share Exchange Agreement by and between ID Global Solutions Corporation, Fin Holdings, Inc. and the Fin Holdings, Inc. shareholders
- 10.11 (23) Contract for the Provision of Cash Collection Services entered into by and between ID Global LATAM S.A.S. and Recaudo Bogota S.A.S. dated December 30, 2016
- 10.12 (15) Confidential Settlement Agreement and General Release between ID Global Solutions Corporation and Charles D. Albanese dated January 26, 2017
- 10.13 (15) Executive Retention Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017
- 10.14 (4) Indemnification Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017
- 10.15 (4) Executive Retention Agreement entered between the Company and Philip D. Beck dated January 31, 2017
- 10.16 (4) Executive Retention Agreement entered between the Company and Thomas Szoke dated January 31, 2017
- 10.17 (4) Executive Retention Agreement entered between the Company and Douglas Solomon dated January 31, 2017
- 10.18 (4) Form of Conversion Agreement dated January 31, 2017
- 10.19 (4) Stand-Off Agreement dated January 31, 2017 entered between Philip Beck, Stuart Stoller, Thomas Szoke, Douglas Solomon, Herbert Selzer, Ricky Solomon and the Company
- 10.20 (24) Amendment No. 1 to the Share Purchase Agreement by and between Ipsidy Inc and the MultiPay Shareholders dated March 7, 2015
- 10.21 (4) Form of Indemnity Agreement
- 10.22 (25) Confidential Settlement Agreement and General Release between Ipsidy Inc. and Douglas Solomon dated September 13, 2017
- 10.23 (25) Agency Agreement between Ipsidy Inc. and Douglas Solomon dated September 13, 2017
- 10.24 (26) Restricted Stock Agreement dated September 29, 2017 between Philip D. Beck and Ipsidy Inc.
- 10.25 (26) Restricted Stock Agreement dated September 29, 2017 between Stuart P. Stoller and Ipsidy Inc.

10.26	(27)	<u>Settlement Agreement entered between ID Global LATAM S.A.S. and Recaudo Bogota S.A.S.</u>
10.27	(29)	<u>2017 Incentive Stock Plan</u>
10.28	(29)	<u>Letter from Ipsidy Inc. to Philip Beck dated May 3, 2018</u>
10.29	(29)	<u>Letter from Ipsidy Inc. to Stuart Stoller dated May 3, 2018</u>
10.30	(29)	<u>Letter from Ipsidy Inc. to Thomas Szoke dated May 3, 2018</u>
10.31	(32)	<u>Letter Agreement between Phillip L. Kumnick and Ipsidy Inc.</u>
10.32	(33)	<u>Form of Securities Purchase Agreement – 2020 Notes</u>
10.33	(33)	<u>Form of Security Agreement – 2020 Notes</u>
10.34	(33)	<u>Form of Letter Agreement between Ipsidy Inc. and the 8% Convertible Note Holders</u>
10.35	(34)	<u>Letter Agreement between Phillip R. Broenniman and Ipsidy Inc.</u>
10.36	(36)	<u>Letter Agreement between Philip D. Beck and Ipsidy Inc. dated May 22, 2020</u>
10.37*		<u>Offer Letter between Ipsidy Inc. and Phillip K. Kumnick dated December 31, 2020</u>
10.38*		<u>Offer Letter between Ipsidy inc. and Philip R. Broenniman dated December 31, 2020</u>
14.1	(28)	<u>Code of Ethics</u>
21.1	(28)	<u>List of Subsidiaries</u>
31.1*		<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act</u>
31.2*		<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act</u>
32.1*		<u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS		XBRL Instance Document *
101.SCH		XBRL Taxonomy Extension Schema Document *
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB		XBRL Taxonomy Extension Label Linkbase Document *
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document *

* Filed herewith.

- (1) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on August 13, 2013.
- (2) Incorporated by reference to the Form 10-12G Registration Statement filed with the Securities Exchange Commission on November 9, 2011.
- (3) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 9, 2014.
- (4) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 6, 2017.
- (5) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 3, 2017.
- (6) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on June 1, 2015.
- (7) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on September 9, 2015.
- (8) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (9) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (10) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (11) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (12) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on December 29, 2015.
- (13) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 25, 2016.
- (14) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on August 16, 2016.
- (15) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 1, 2017.
- (16) Incorporated by reference to the Form S-1 Registration Statement filed with the Securities Exchange Commission on February 13, 2014.
- (17) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on November 28, 2014.
- (18) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on March 12, 2015.
- (19) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (20) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (21) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on October 1, 2015.
- (22) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 12, 2016.
- (23) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on January 6, 2017.
- (24) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on March 31, 2017.
- (25) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on September 14, 2017.
- (26) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on November 13, 2017.

- (27) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on November 15, 2017.
- (28) Incorporated by reference to the Form 10-K Annual Report filed with the Securities Exchange Commission on July 12, 2017.
- (29) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on May 4, 2018.
- (30) Incorporated by reference to the Form 10-K Annual Report filed with the Securities Exchange Commission on August 17, 2018.
- (31) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on June 21, 2019.
- (32) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on December 16, 2019.
- (33) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 18, 2020.
- (34) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on March 10, 2020.
- (35) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on May 13, 2020.
- (36) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on May 29, 2020.
- (37) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on January 22, 2021.

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.

Ipsidy Inc.

Date: March 8, 2021

By: /s/ Phillip L. Kumnick
Name: Phillip L. Kumnick
Title: Chairman of the Board of Directors, &
Chief Executive Officer
(Principal Executive Officer)

Date: March 8, 2021

By: /s/ Stuart P. Stoller
Name: Stuart P. Stoller
Title: Chief Financial Officer
(Principal Financial and Accounting
Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on March 8, 2021 on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>/s/ Phillip L. Kumnick</u> Phillip L. Kumnick	Chairman of the Board of Directors and Chief Executive Officer, (Principal Executive Officer)
<u>/s/ Philip R. Broenniman</u> Philip R. Broenniman	Chief Operating Officer and Director
<u>/s/ Thomas R. Szoke</u> Thomas R. Szoke	Chief Solutions Architect and Director
<u>/s/ Theodore Stern</u> Theodore Stern	Director
<u>/s/ Stuart P. Stoller</u> Stuart P. Stoller	Chief Financial Officer (Principal Financial and Accounting Officer)
<u>/s/ Herbert Selzer</u> Herbert Selzer	Director

FINANCIAL STATEMENTS

<u>Report of Independent Registered Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2020 and 2019</u>	F-5
<u>Consolidated Statements of Operations for the Years Ended December 31, 2020 and 2019</u>	F-6
<u>Consolidated Statements of Comprehensive Loss for the Years Ended December 31, 2020 and 2019</u>	F-7
<u>Consolidated Statement of Stockholders' Equity for the Years Ended December 31, 2020 and 2019</u>	F-8
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2020 and 2019</u>	F-9
<u>Notes to Consolidated Financial Statements</u>	F-10



Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Ipsidy Inc.
Long Beach, New York

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Ipsidy Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive loss, stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

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

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

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

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment of Goodwill

Description of Matter

The Company's consolidated goodwill balance was approximately \$4,183,000 at December 31, 2020. The Company's evaluation of goodwill for impairment involves the comparison of the fair value of each reporting unit to its carrying value. The fair value of each reporting unit is estimated using the income approach, which requires the use of estimates and assumptions related to cash flow forecasts, discount rates, and terminal values. Management's cash flow forecasts included significant judgments and assumptions relating to revenue growth rates.

The fair value of a reporting unit did not exceed its carrying value as of the annual evaluation date; therefore, impairment expense of approximately \$1,036,000 was recognized during the year ended December 31, 2020.

Management made significant judgments when developing the fair value estimate of the reporting units. As a result, a high degree of auditor judgment and effort was required in performing audit procedures to evaluate the reasonableness of management's cash flow forecasts and the significant assumptions identified above. Significant uncertainty exists with these assumptions because they are sensitive to future market or economic conditions.

How We Addressed the Matter in Our Audit

Our audit procedures included the following:

- Obtained an understanding of the internal controls and processes in place over the Company's annual goodwill impairment review process, including management's review of the significant assumptions described above.
- Evaluated management's determination of reporting units and segments.
- Evaluated the significant assumptions and inputs used in the income model based and reviewed corroborating documentation to support the assumptions and inputs.
- Evaluated the reasonableness of management's current revenue forecasts by comparing the forecasts to actual results subsequent to year-end.
- Performed a sensitivity analysis over the Company's annual goodwill impairment analysis.

Revenue from Contracts with Customers – Identity Solutions Software

Description of Matter

The Company had approximately \$2,141,000 in revenues for the year ended December 31, 2020. As disclosed in Note 1 to the consolidated financial statements, the Company recognizes revenue from Identity Solutions Software based on the identified performance obligations over the performance period for fixed consideration and for variable fees generated that are earned on a usage fee based over time, which represented approximately \$852,000 of the Company's revenue for the year ended December 31, 2020.

Due to the nature of the Company's contracts including multiple performance obligations, management exercises significant judgment in the following areas in determining appropriate revenue recognition:

- Determination of which products and services are considered distinct performance obligations that should be accounted for separately or combined, such as software licenses and related implementation or support services.
- Determination of stand-alone selling prices for each distinct performance obligation.
- Estimation of contract transaction price and allocation of the transaction price to the performance obligations.
- The pattern of delivery (i.e. timing of when revenue is recognized) for each distinct performance obligation.

As a result, a high degree of auditor judgment was required in performing audit procedures to evaluate the reasonableness of management's judgments. Changes in these judgments can have a material effect on the amount of revenue recognized on these contracts

How We Addressed the Matter in Our Audit

Based on our knowledge of the Company, we determined the nature and extent of procedures to be performed over revenue, including the determination of the revenue streams over which those procedures were performed. Our audit procedures included the following for each revenue stream where procedures were performed:

- Obtained an understanding of the internal controls and processes in place over the Company's revenue recognition processes.
- Analyzed the significant assumptions and estimates made by management as discussed above.
- Assessed the recorded revenue by selecting a sample of transactions, analyzing the related contract, testing management's identification of distinct performance obligations, and comparing the amounts recognized for consistency with underlying documentation.
- Assessed the completeness of contract liabilities by selecting a sample of transactions, analyzing the related contract, and recalculating contract liability based on remaining subscription period.

Cherry Bekant LLP

We have served as the Company's auditor since 2015.
Tampa, Florida
March 8, 2021

IPSIDY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u> <u>2020</u>	<u>December 31,</u> <u>2019</u>
ASSETS		
Current Assets:		
Cash	\$ 3,765,277	\$ 567,081
Accounts receivable, net	72,986	125,859
Current portion of net investment in direct financing lease	72,682	65,333
Inventory, net	254,951	173,575
Other current assets	237,769	753,505
Total current assets	<u>4,403,665</u>	<u>1,685,353</u>
Property and equipment, net	97,829	161,820
Other assets	240,223	383,066
Intangible assets, net	4,527,476	5,593,612
Goodwill	4,183,232	5,218,861
Net investment in direct financing lease, net of current portion	422,021	494,703
Total assets	<u>\$ 13,874,446</u>	<u>\$ 13,537,415</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,665,132	\$ 2,215,912
Notes payable, net of discounts, current portion	5,947	5,341
Capital lease obligation, current portion	39,232	34,816
Contract liabilities	237,690	425,276
Total current liabilities	<u>2,948,001</u>	<u>2,681,345</u>
Long-term liabilities:		
Notes payable, net of discounts and current portion	487,339	1,970,937
Convertible debt, net of discounts	5,800,976	428,000
Capital lease obligation, net of current portion	10,562	49,794
Other lease liabilities	47,809	131,568
Total liabilities	<u>9,294,687</u>	<u>5,261,644</u>
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
Common stock, \$0.0001 par value, 1,000,000,000 shares authorized; 589,272,023 and 518,125,454 shares issued and outstanding as of December 31, 2020 and 2019, respectively	58,927	51,812
Additional paid in capital	102,594,341	94,982,167
Accumulated deficit	(98,234,151)	(86,935,593)
Accumulated comprehensive income	160,642	177,385
Total stockholders' equity	<u>4,579,759</u>	<u>8,275,771</u>
Total liabilities and stockholders' equity	<u>\$ 13,874,446</u>	<u>\$ 13,537,415</u>

See notes to consolidated financial statements.

IPSIDY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Year Ended December 31,	
	2020	2019
Revenues:		
Products and services	\$ 2,083,829	\$ 2,488,624
Lease income	56,815	63,421
Total revenues, net	2,140,644	2,552,045
Operating Expenses:		
Cost of sales	661,627	669,523
General and administrative	6,743,258	7,892,046
Research and development	1,161,416	1,614,054
Impairment loss	1,333,566	1,671,804
Depreciation and amortization	1,250,542	790,367
Total operating expenses	11,150,409	12,637,794
Loss from operations	(9,009,765)	(10,085,749)
Other Income (Expense):		
Interest expense - net	(969,396)	(375,598)
Debt extinguishment	(985,842)	-
Warrant exercise inducement expense	(366,795)	-
Other income, net	69,563	23,920
Other expense, net	(2,252,470)	(351,678)
Loss before income taxes	(11,262,235)	(10,437,427)
Income Taxes	(36,323)	(62,931)
Net loss	\$ (11,298,558)	\$ (10,500,358)
Net loss per share - Basic and Diluted	\$ (0.02)	\$ (0.02)
Weighted Average Shares Outstanding - Basic and Diluted	542,028,103	498,747,396

See notes to consolidated financial statements.

IPSIDY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Year Ended December 31,	
	2020	2019
Net Loss	<u>\$ (11,298,558)</u>	<u>\$ (10,500,358)</u>
Foreign currency translation loss	<u>(16,743)</u>	<u>(30,369)</u>
Comprehensive loss	<u><u>\$ (11,315,301)</u></u>	<u><u>\$ (10,530,727)</u></u>

See notes to consolidated financial statements.

IPSIDY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock		Additional	Accumulated	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	Other Comprehensive Income	
Balances, December 31, 2018	478,950,996	\$ 47,895	\$ 90,770,682	\$ (76,435,235)	\$ 207,754	\$ 14,591,096
Issuance of common stock for cash	38,763,750	3,876	2,924,436	-	-	2,928,312
Common stock issued for services	410,708	41	41,030	-	-	41,071
Stock-based compensation	-	-	1,246,019	-	-	1,246,019
Net loss	-	-	-	(10,500,358)	-	(10,500,358)
Foreign currency translation	-	-	-	-	(30,369)	(30,369)
Balances, December 31, 2019	518,125,454	51,812	94,982,167	(86,935,593)	177,385	8,275,771
Sale of common stock for cash, net of issuance costs	55,876,558	5,588	5,070,867	-	-	5,076,455
Warrant exercise	20,480,992	2,048	1,246,935	-	-	1,248,983
Warrant and stock option cashless exercises	1,682,827	168	(168)	-	-	-
Modification of warrants issued with debt	-	-	95,223	-	-	95,223
Warrant exercise inducement	-	-	366,795	-	-	366,795
Stock-based compensation	8,000,000	800	822,764	-	-	823,564
Issuance of common stock to settle accounts payable	106,192	11	8,259	-	-	8,270
Stock repurchase	(15,000,000)	(1,500)	1,499	-	-	(1)
Net loss	-	-	-	(11,298,558)	-	(11,298,558)
Foreign currency translation	-	-	-	-	(16,743)	(16,743)
Balances, December 31, 2020	<u>589,272,023</u>	<u>\$ 58,927</u>	<u>\$102,594,341</u>	<u>\$ (98,234,151)</u>	<u>\$ 160,642</u>	<u>\$ 4,579,759</u>

See notes to consolidated financial statements.

IPSIDY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	December 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(11,298,558)	\$(10,500,358)
Adjustments to reconcile net loss with cash used in operations:		
Depreciation and amortization expense	1,250,542	790,367
Stock-based compensation	823,564	1,246,019
Extinguishment of note payable	985,842	-
Amortization of debt discount and debt issuance costs, net	451,749	109,764
Stock issued for services	-	41,071
Warrant exercise inducement expense	366,795	-
Impairment loss/write-off of assets	1,333,566	1,671,804
Changes in operating assets and liabilities:		
Accounts receivable	45,319	(5,770)
Net investment in direct financing lease	65,333	58,727
Inventory	(109,213)	(18,834)
Other current assets	409,290	(50,647)
Decrease in other assets	37,526	-
Accounts payable and accrued expenses	1,157,370	413,773
Contract liabilities	(187,586)	189,006
Net cash flows from operating activities	<u>(4,668,461)</u>	<u>(6,055,078)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	-	(27,364)
Investment in other assets including work in process	(299,436)	(1,604,152)
Net cash flows from investing activities	<u>(299,436)</u>	<u>(1,631,516)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible note payable	1,510,000	408,000
Payment of debt issuance costs	(104,800)	-
Proceeds from sale of common stock offering, net of offering costs	5,076,455	2,928,312
Common stock repurchase	(1)	-
Proceeds from the exercise of warrants	1,248,983	-
Proceeds from the paycheck protection program	485,760	-
Principal payments on capital lease obligations and notes payable	(40,157)	(31,188)
Net cash flows from financing activities	<u>8,176,240</u>	<u>3,305,124</u>
Effect of foreign currencies exchange on cash	<u>(10,147)</u>	<u>(23,780)</u>
Net Change in Cash	3,198,196	(4,405,250)
Cash, Beginning of Period	567,081	4,972,331
Cash, End of Period	<u>\$ 3,765,277</u>	<u>\$ 567,081</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	<u>\$ 9,488</u>	<u>\$ 10,771</u>
Cash paid for income taxes	<u>\$ 36,323</u>	<u>\$ 62,931</u>
Non-cash Investing and Financing Activities:		
Modification of warrants issued with convertible debt	<u>\$ 95,223</u>	<u>\$ -</u>
Exchange of notes payable and accrued interest for convertible notes payable	<u>\$ 2,662,000</u>	<u>\$ -</u>
Settlement of accounts payable with common stock	<u>\$ 8,270</u>	<u>\$ -</u>
Purchase of vehicle with note payable	<u>\$ -</u>	<u>\$ 16,510</u>
Recognition of lease right to use asset and liabilities	<u>\$ -</u>	<u>\$ 514,473</u>
Reclass from other current assets to other assets	<u>\$ 106,446</u>	<u>\$ -</u>
Cashless option and warrant exercises	<u>\$ 168</u>	<u>\$ -</u>
Reclassification of software development to intangible costs	<u>\$ 128,005</u>	<u>\$ 3,111,668</u>

See notes to consolidated financial statements.

IPSIDY INC. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Ipsidy Inc. (“Ipsidy” or the “Company”) was incorporated on September 21, 2011 under the laws of the State of Delaware. Ipsidy is a provider of an Identity as a Service (IDaaS) platform that delivers a suite of secure, mobile, biometric identity solutions. The Company provides its biometric identification services to government and private sector organizations and businesses, seeking to authenticate and manage identities for a variety of security purposes, including issuing identity cards, exercise of rights such as voting in elections and controlling access to digital and physical environments. The Company’s platform supporting internally developed software as well as acquired and licensed technology is intended to provide solutions for multi modal biometric matching, multi-factor out of band identity and transaction authentication, and electronic transactions.

Going Concern

As of December 31, 2020, the Company had an accumulated deficit of approximately \$98.2 million. For the year ended December 31, 2020, the Company earned revenue of approximately \$2.1 million and incurred a loss from operations of approximately \$9.0 million.

These consolidated financial statements have been prepared on a going concern basis, which implies the Company will continue to meet its obligations and continue its operations for the next fiscal year. The continuation of the Company as a going concern is dependent upon financial support from the Company’s current shareholders, the ability of the Company to obtain additional equity financing to continue operations, the Company’s ability to generate sufficient cash flows from operations, successfully locating and negotiating with other business entities for potential acquisition and /or acquiring new clients to generate revenues and cash flows. As there can be no assurance that the Company will be able to achieve positive cash flows (become profitable) and raise sufficient capital to maintain operations there is substantial doubt about the Company’s ability to continue as a going concern.

Covid-19

A novel strain of coronavirus (“Covid-19”) emerged globally in December 2019 and has been declared a pandemic. The extent to which Covid-19 will impact our customers, business, results and financial condition will depend on current and future developments, which are highly uncertain and cannot be predicted at this time. The Company’s day-to-day operations beginning March 2020 have been impacted differently depending on geographic location and services that are being performed. The Cards Plus business located in South Africa did not have any operations in April 2020 and has had limitations on its operations starting in May 2020, as the Company is following the guidance and requirements of the South African government. Our operations in the United States and Colombia have suffered less immediate impact as most staff can work remotely and can continue to develop our product offerings.

That said, we have seen our business opportunities develop more slowly as business partners and potential customers are dealing with Covid-19 issues, working remotely and these issues are causing delays in decision making and finalization of negotiations and agreements. However, the level of inquiries about our services has increased during the last quarter of 2020, as our products are designed to serve an increasingly mobile economy and workforce.

Basis of Consolidation

The consolidated financial statements include the accounts of Ipsidy Inc. and its wholly-owned subsidiaries Innovation in Motion Inc. MultiPay S.A.S., ID Global LATAM, IDGS S.A.S., ID Solutions, Inc., FIN Holdings, Inc., Cards Plus Pty Ltd., Ipsidy Perú S.A.C., and Ipsidy Enterprises Limited (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

The summary of significant accounting policies presented below is designed to assist in understanding the Company’s consolidated financial statements. Such consolidated financial statements and accompanying notes are the representations of the Company’s management, who are responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America (“US GAAP”) in all material respects and have been consistently applied in preparing the accompanying consolidated financial statements.

Use of Estimates

In preparing these consolidated financial statements in conformity with US GAAP, management is required to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Significant estimates and assumptions included in our consolidated financial statements relate to the realizability of accounts receivable and inventory, valuation of long-lived assets, accruals for potential liabilities, and valuation assumptions related to derivative liabilities, equity instruments and share based payments.

Revenue Recognition

Cards Plus – The Company recognizes revenue for the design and production of cards at the point in time when products are shipped, or services have been performed due to the short term nature of the contracts. Additionally, the cards produced by the Company have no alternative use and the Company has an enforceable right to payment for work performed should the contract be cancelled. As of December 31, 2020, and December 31, 2019, Cards Plus had approximately \$87,000 and \$88,000, respectively, of contract liability from payments received in advance that will be earned in future periods.

Payment Processing – The Company recognizes revenue for variable fees generated for payment processing solutions that are earned on a usage fee over time based on monthly transaction volumes or on a monthly flat fee rate. Additionally, the Company also sells certain equipment from time to time for which revenue is recognized at a point in time the equipment is delivered to the customer.

Identity Solutions Software – The Company recognizes revenue based on the identified performance obligations over the performance period for fixed consideration and for variable fees generated that are earned on a usage fee based over time based on monthly transaction volumes or on a monthly flat fee rate. The Company had a contract liability of approximately \$150,000 and \$137,000 as of December 31, 2020 and 2019 for certain revenue that will be earned in future periods. The majority of the \$150,000 of deferred revenue contract liability as of December 31, 2020 will be earned in the first quarter of fiscal year 2021. As of December 31, 2019, the majority of the deferred revenue contract liability was recognized in the quarter ended March 31, 2020. We have allocated the selling price in the contract to one customer which has multiple performance obligations based on the contract selling price that we believe represents a standalone selling price for the service rendered.

All contracts are reviewed for their respective performance obligations and related revenue and expense recognition implications. Certain of the revenues are derived from identity services that could include multiple performance obligations. A performance obligation is defined as a promise to provide a “distinct” good or service to a customer. The Company has determined that one possible treatment under U.S. GAAP is that these services will represent a stand-ready series of distinct daily services that are substantially the same, with the same pattern of transfer to the customer. Further, the Company has determined that the performance obligation to provide account access and facilitate transactions should meet the criteria for the “as invoiced” practical expedient, in that the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company’s performance completed to date. As a result, the Company anticipates it may recognize revenue in the amount to which the Company has a right to invoice, based on completed performance at the relevant date. Additionally, the contracts could include implementation services, or support on an “as needed” basis and we will review each contract and determine whether such performance obligations are separate and distinct and apply the new standard accordingly to the revenue and expense derived from or related to each such service.

During the year ended December 31, 2020, the Company had revenues from operations in North America, South America and Africa of \$0.6 million, \$0.3 million and \$1.2 million, respectively, compared to \$0.6 million, \$0.5 million, \$1.5 million, respectively, in the year ended December 31, 2019.

Additionally, the Company will capitalize the incremental costs of acquiring and fulfilling a contract with a customer if the Company expects to recover those costs. The incremental costs of acquiring and fulfilling a contract are those that the Company incurs to acquire and fulfill a contract with a customer that it would not have incurred if the contract had not been acquired (for example, a sales commission or specific incremental costs associated with the contract).

The Company capitalizes the costs incurred to acquire and fulfill a contract only if those costs meet all the following criteria:

- a. The costs relate directly to a contract or to an anticipated contract that the Company can specifically identify.
- b. The costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.
- c. The costs are expected to be recovered.

The Company will capitalize contract acquisition and fulfillment costs related to signing or renewing contracts that meet the above criteria, which will be classified as contract cost assets in the Company's Consolidated Balance Sheets.

Contract cost assets will be amortized using the straight-line method over the expected period of benefit beginning at the time revenue begins to be realized. The amortization of contract fulfillment cost assets associated with facilitating transactions will be recorded as cost of services in the Company's Consolidated Statements of Operations. The amortization of contract acquisition cost assets associated with sales commissions that qualify for capitalization will be recorded as selling, general and administrative expense in the Company's Consolidated Statements of Operations.

As of December 31, 2020, the Company did not have any deferred contract costs or fees payable. As of December 31, 2019, the company had approximately \$5,000 of accounts payable and accrued expenses related to the delivery of biometric identity system and services which was delivered in February 2020.

Financing revenue related to direct financing leases is outside the scope of Topic 606 and is recognized over the term of the lease using the effective interest method. The Company leases kiosks to one customer that has meet the criteria for a financing lease. The revenue associated with the leased kiosks is expected to be recognized through April 2026.

Accounts Receivable

All customers are granted credit on a short-term basis and related credit risks are considered minimal. The Company routinely reviews its trade receivables and makes provisions for probable doubtful accounts; however, those provisions are estimates and actual results could differ from those estimates and those differences may be material. Trade receivables are deemed uncollectible and removed from accounts receivable and the allowance for doubtful accounts when collection efforts have been exhausted. At December 31, 2020 and 2019, management determined no allowance for doubtful accounts was required.

Inventories

Inventory of plastic/ID cards, digital printing material, which are held by Cards Plus Pty Ltd., are at the lower of cost (using the average method) or market. The Plastic/ID cards and digital printing material are used to provide plastic loyal ID and other types of cards. Inventories of kiosks held by IDGS S.A.S are stated at the lower of cost (using the first-in, first-out method) or net realizable value. The kiosks provide electronic ticketing for transit systems.

Inventories at December 31, 2020 consist of cards inventory and inventories at December 31, 2019 consist of cards inventory and kiosks that have not been placed into service. As of December 31, 2020, the Company recorded an inventory valuation allowance of approximately \$18,000 to reflect net realizable value of the cards inventory.

As of December 31, 2019, the Company had an inventory valuation allowance for kiosks of \$236,000 that are being held for sale and \$18,000 for the cards inventory.

Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period.

Concentration of Credit Risk

The Company's financial instruments that potentially expose the Company to a concentration of credit risk consist of cash and accounts receivable.

Cash: The Company's cash is deposited at financial institutions and cash balances held in United States ("US") bank accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000. At various times during the year, the Company may have exceeded amounts insured by the FDIC. At December 31, 2020, the Company had approximately \$3,231,000 in funds in the United States which were in excess of the insured amounts by the FDIC. For the Company's foreign subsidiaries, no amounts are insured. At December 31, 2020, the Company held approximately \$11,000, \$70,000, \$189,000, and \$9,000 in cash maintained in Peruvian, Colombian, African, and British Banks, respectively.

2020 Revenues and accounts receivable: For the year ended December 31, 2020, 27% of consolidated revenues were derived from one customer who is a US customer and is substantially all of the US based income. Additionally, for the year ended December 31, 2020, 55%, and 16% of the consolidated revenues were from Cards Plus (Africa) and the Colombian operations, respectively. Revenue for approximately 87% of the Colombian operations were derived from two customers. As of December 31, 2020, accounts receivable related to Cards Plus (Africa) amounted to 90% of the accounts receivable. The US operations represented 9% of the accounts receivable and the balance of 1% was from the Colombian operations, respectively.

2019 Revenues and accounts receivable: For the year ended December 31, 2020, 25% of consolidated revenues were derived from one customer who is a US customer and is substantially all of the US based income. Additionally, for the year ended December 31, 2020, 57%, 5% and 18% of the consolidated revenues were from Cards Plus (Africa), Zimbabwe Election Commission (US provided services), and the Colombian operations, respectively. Revenue for approximately 89% of the Colombian operations were derived from four customers. As of December 31, 2020, accounts receivable related to Cards Plus (Africa), amounted to 70% of the accounts receivable, Colombia operations represented 26% of the accounts receivable operations and the balance of 4% was from US operations, respectively.

Income Taxes

The Company accounts for income taxes under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740 "Income Taxes." Under the asset and liability method of FASB ASC 740, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under FASB ASC 740, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period the enactment occurs. A valuation allowance is provided for certain deferred tax assets if it is more likely than not that the Company will not realize tax assets through future operations.

Leases

All leases are classified at the inception as direct finance leases or operating leases based on whether the lease transfers substantially all the risks and rewards of ownership. Leases that transfer to the lessee substantially all of the risks and rewards incidental to ownership of the asset are classified as direct finance leases.

The Company, effective January 1, 2019 adopted the provisions of Topic 842. The Company uses the practical expedients available under Topic 842 which allows Ipsidy to run off existing leases, as initially classified as operating or financing, and classify new leases after implementation under the new standard as the business evolves.

The practical expedients elected by the Company allows the Company not to reassess our prior conclusions about lease identification, lease classification and initial direct costs. Furthermore, Company elected the short-term lease recognition exemption for leases with a term of 12 or less months which are not reasonably certain of exercising any available renewal options that would extend past 12 months. Additionally, we will continue to account for the executory costs of the direct financing lease as previously concluded and the initial direct costs were not considered significant.

The Company has operating leases principally for offices and some of the leases have renewal options. Management evaluates each lease independently to determine the purpose, necessity to its future operations in addition to other appropriate facts and circumstances.

The adoption of Topic 842 as of January 1, 2019 impacted our balance sheet by the recognition of the operating lease right-of-use assets and the liability for operating leases. The accounting for finance leases (capital leases) was substantially unchanged. Accordingly, leases that were classified as operating leases under the previous guidance were classified as operating leases under Topic 842. The lease liability is based on the present value of the remaining lease payments, discounted using a market based incremental borrowing rate as the effective date of January 1, 2019 using current estimates as to lease term including estimated renewals for each operating lease. As of January 1, 2019, the Company recorded an adjustment of approximately \$514,000 to operating lease right-of-use assets (“ROU”) and the related lease liability. See Note 12 for further information with respect to leases.

See Notes 8, 11, 12 and 13 to Condensed Consolidated Financial Statements for additional information.

Property and Equipment, net

Property and equipment consist of furniture and fixtures and computer equipment and are stated at cost. Property and equipment are depreciated using the straight-line method over the estimated useful service lives of three to five years. Maintenance and repairs are expensed as incurred and improvements are capitalized. Gains or losses on the disposition of property and equipment are recorded upon disposal.

Other Assets – Software Development Costs

Other assets consist primarily of costs associated with software development of new product offerings and enhancements to existing and new applications. Development costs of computer software to be sold, leased or otherwise marketed are subject to capitalization beginning when a product’s technological feasibility has been established and ending when a product is available for general release to customers. As of December 31, 2020 and 2019, the balance sheet “Other assets” are under further development and have not been placed in service. During the years ended December 31, 2020 and December 31, 2019, approximately \$0.4 million and \$3.1 million of software developed were placed into service. Upon completion, the amounts remaining in “other assets” will be recorded in the appropriate asset category and amortized over their estimated useful lives.

Intangible Assets

Excluding goodwill, acquired intangible assets and internally developed software are amortized over their estimated useful lives. Acquired amortizing intangible assets are carried at cost, less accumulated amortization. Internally developed software costs are capitalized upon reaching technological feasibility. Amortization of acquired finite-lived intangible assets is computed over the estimated useful lives (5- 10 years) of the respective assets which is the shorter of the life of the asset or the period during which sales will be generated.

Goodwill

Goodwill is recorded when the purchase price paid for an acquisition exceeds the fair value of net identified tangible and intangible assets acquired. The Company performs an annual impairment test of goodwill and further periodic tests to the extent indicators of impairment develop between annual impairment tests. The Company's impairment review process compares the fair value of the reporting unit to its carrying value, including the goodwill related to the reporting unit utilizing qualitative considerations. To determine the fair value of the reporting unit, the Company may use various approaches including an asset or cost approach, market approach or income approach or any combination thereof. These approaches may require the Company to make certain estimates and assumptions including future cash flows, revenue and expenses. These estimates and assumptions are reviewed each time the Company tests goodwill for impairment and are typically developed as part of the Company's routine business planning and forecasting process. While the Company believes its estimates and assumptions are reasonable, variations from those estimates could produce materially different results.

During the year ended December 31, 2020, the Company recorded an impairment loss of approximately \$1.0 million, associated with goodwill at one of its reporting units. As a result of the current pandemic and its potential impact on future results, the Company updated its reporting unit projections, and it indicated a goodwill impairment as the carrying value may not be recovered as revenue assumptions and related revenue were revised downward.

During the year ended December 31, 2019, the Company updated our projections associated with our reporting units and these indicated that the carrying value may not be recovered as revenue assumptions were not met. The goodwill impairment loss for the year ended December 31, 2019 was approximately \$1,517,000 across the three reporting units.

The fair value of the reporting unit in both years was determined using discounted cash flow.

Stock-based compensation

The Company has accounted for stock-based compensation under the provisions of FASB ASC 718 – "Stock Compensation" which requires the use of the fair-value based method to determine compensation for all arrangements under which employees and others receive shares of stock or equity instruments (stock options and common stock purchase warrants). For employee awards, the fair value of each stock option award is estimated on the date of grant using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. For non-employees, the fair value of each stock option award is estimated on the measurement date using the Black-Scholes valuation model that uses assumptions for expected volatility, expected dividends, expected term, and the risk-free interest rate. For non-employees, the Company utilizes the graded vesting attribution method under which the entity treats each separately vesting portion (tranche) as a separate award and recognizes compensation cost for each tranche over its separate vesting schedule. Expected volatilities are based on historical volatility of peer companies and other factors estimated over the expected term of the stock options. For employee awards, the expected term of options granted is derived using the "simplified method" which computes expected term as the average of the sum of the vesting term plus the contract term. The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant for the period of the expected term.

The Company adopted, as of January 1, 2019, the requirements of ASU 2018-07 which simplified the accounting for share-based payments granted to non-employees for share based payments granted to non-employees for goods and services. Under the ASU, most of the guidance on such payments to non-employees were aligned with the share-based payments granted to employees. The Company determined on the date of adoption that the impact was not significant.

Impairment of Long-Lived Assets

Long-lived assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset.

If the carrying amount of an asset exceeds its undiscounted estimated future cash flows, an impairment review is performed. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Generally, fair value is determined using valuation techniques such as expected discounted cash flows or appraisals, as appropriate. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated or amortized. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

During the year ended December 31, 2020, the Company recorded an impairment on intangible assets of approximately \$0.3 million at one reporting unit. The current projection indicated the carrying value of the intangible assets was in excess of its estimated recoverable value.

During the year ended December 31, 2019, the Company impaired intangible assets related to developed software of approximately \$155,000 as the assets were no longer being utilized for commercial purposes.

Research and Development Costs

Research and development costs consist of expenditures for the research and development of new products and technology. These costs are primarily expenses to incurred to perform research projects and develop technology for the Company's products. Research and development costs are expensed as incurred.

Net Loss per Common Share

The Company computes net loss per share in accordance with FASB ASC 260, "Earnings per Share". ASC 260 requires presentation of both basic and diluted earnings per share ("EPS") on the face of the statement of operations. Basic EPS is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS gives effect to all dilutive potential common shares outstanding during the period including stock options, using the treasury stock method, and convertible notes and stock warrants, using the if-converted method. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased from the exercise of stock options, warrants and conversion of convertible notes. Diluted EPS excludes all dilutive potential common shares if their effect is anti-dilutive. The following potentially dilutive securities were excluded from the calculation of diluted loss per share for the years ended December 31, 2020 and 2019 because their effect was antidilutive:

	2020	2019
Convertible notes payable	53,295,000	-
Warrants	169,374,061	109,400,006
Stock options	54,697,021	47,253,227
	<u>277,366,082</u>	<u>156,653,233</u>

Foreign Currency Translation

The assets, liabilities and results of operations of certain of Ipsidy’s subsidiaries are measured using their functional currency which is the currency of the primary foreign economic environment in which they operate. Upon consolidating these subsidiaries with Ipsidy, the applicable assets and liabilities are translated to US dollars at currency exchange rates as of the applicable dates and their revenues and expenses are translated at the weighted average currency exchange rates during the applicable reporting periods. Translation adjustments resulting from the process of translating these subsidiaries’ financial statements are reported in other comprehensive loss in the accompanying consolidated statements of comprehensive loss.

Fair Value of Financial Instruments

The Company is required to disclose fair value information about financial instruments when it is practicable to estimate that value. The carrying amounts of the Company’s cash, accounts receivable, other receivables, accounts payable, accrued expenses, and other current liabilities approximate their estimated fair value due to the short-term maturities of these financial instruments and because related interest rates offered to the Company approximate current rates. The fair value of the Company’s notes payable is approximately \$493,000 which reflects its carrying value as of December 31, 2020. The fair value of the Company’s convertible notes payable is \$6,355,000, which differs from the carrying value of approximately \$5,801,000 at December 31, 2020 because of the debt discounts as discussed in Note 7.

Recently Issued Accounting Pronouncements Not Yet Adopted

In August the FASB issued a new standard (ASU 2020-06) to reduce the complexity of accounting for convertible debt and other equity-linked instruments. For certain convertible debt instruments with a cash conversion feature, the changes are a trade-off between simplifications in the accounting model (no separation of an “equity” component to impute a market interest rate, and simpler analysis of embedded equity features) and a potentially adverse impact to diluted EPS by requiring the use of the if-converted method. The new standard will also impact other financial instruments commonly issued by both public and private companies. For example, the separation model for beneficial conversion features is eliminated simplifying the analysis for issuers of convertible debt and convertible preferred stock. Also, certain specific requirements to achieve equity classification and/ or qualify for the derivative scope exception for contracts indexed to an entity’s own equity are removed, enabling more freestanding instruments and embedded features to avoid mark-to-market accounting. The new standard is effective for companies that are SEC filers (except for Smaller Reporting Companies) for fiscal years beginning after December 15, 2021 and interim periods within that year, and two years later for other companies. Companies can early adopt the standard at the start of a fiscal year beginning after December 15, 2020. The standard can either be adopted on a modified retrospective or a full retrospective basis. The Company is currently reviewing the newly issued standard and does not believe it will materially impact the Company.

See Notes 6 and 7 for additional information on indebtedness outstanding as of December 31, 2020.

NOTE 2 – PROPERTY AND EQUIPMENT, NET

Property and equipment consisted of the following as of December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Property and equipment	\$ 297,839	\$ 282,316
Equipment under capital lease (see Note 11)	163,407	156,867
	461,246	439,183
Less Accumulated depreciation	(363,417)	(277,363)
Property and equipment, net	<u>\$ 97,829</u>	<u>\$ 161,820</u>

Depreciation expense totaled \$54,903 and \$86,054 for the years ended December 31, 2020 and 2019, respectively.

NOTE 3 – OTHER ASSETS

The Company's other assets consist of software being developed for new product offerings that have not been placed into service. Other assets as of December 31, 2020 and 2019 include:

	2020	2019
Software and development	\$ -	\$ 128,005
Operating Lease ROU Assets	49,856	171,141
Other	190,367	83,920
	<u>\$ 240,223</u>	<u>\$ 383,066</u>

NOTE 4 – INTANGIBLE ASSETS, NET (OTHER THAN GOODWILL)

The Company's intangible assets consist of intellectual property acquired from Multi-Pay and FIN in addition to internally developed software that have been placed into service. They are amortized over their estimated useful lives as indicated below. The following is a summary of activity related to intangible assets for the years ended December 31, 2020 and 2019:

	Acquired and					Total
	Customer Relationships	Developed Software	Intellectual Property	Non-Compete	Patents	
Useful Lives	10 Years	5 Years	10 Years	10 Years	10 Years	
Carrying Value at December 31, 2018	\$ 1,128,734	\$ 908,893	\$ 1,191,942	\$ 2,433	\$ 78,182	\$ 3,310,184
Additions	-	3,111,668	-	-	30,695	3,142,363
Impairment of assets	-	-	(154,622)	-	-	(154,622)
Amortization	(158,715)	(368,637)	(174,528)	(2,433)	-	(704,313)
Carrying Value at December 31, 2019	970,019	3,651,924	862,792	-	108,877	5,593,612
Additions	-	404,720	-	-	22,721	427,441
Amortization	(158,716)	(885,250)	(148,384)	-	(3,290)	(1,195,640)
Impairment of assets	-	-	(297,937)	-	-	(297,937)
Carrying Value at December 31, 2020	<u>\$ 811,303</u>	<u>\$ 3,171,394</u>	<u>\$ 416,471</u>	<u>\$ -</u>	<u>\$ 128,308</u>	<u>\$ 4,527,476</u>

The following is a summary of intangible assets as of December 31, 2020:

	Acquired and					Total
	Customer Relationships	Developed Software	Intellectual Property	Non-Compete	Patents	
Cost	\$ 1,587,159	\$ 4,476,271	\$ 828,580	\$ 14,087	\$ 131,598	\$ 7,037,695
Accumulated amortization	(775,856)	(1,304,877)	(412,109)	(14,087)	(3,290)	(2,510,219)
Carrying Value at December 31, 2020	<u>\$ 811,303</u>	<u>\$ 3,171,394</u>	<u>\$ 416,471</u>	<u>\$ -</u>	<u>\$ 128,308</u>	<u>\$ 4,527,476</u>

The following is a summary of intangible assets as of December 31, 2019:

	Acquired and					
	Customer Relationships	Developed Software	Intellectual Property	Non- Compete	Patents	Total
Cost	\$ 1,587,159	\$4,071,550	\$ 1,498,363	\$ 14,087	\$108,877	\$ 7,280,036
Accumulated amortization	(617,140)	(419,626)	(635,571)	(14,087)	-	(1,686,424)
Carrying Value at December 31, 2019	<u>\$ 970,019</u>	<u>\$3,651,924</u>	<u>\$ 862,792</u>	<u>\$ -</u>	<u>\$108,877</u>	<u>\$ 5,593,612</u>

The following is the future amortization of intangible assets for the year ended December 31:

2021	\$1,185,868
2022	1,092,535
2023	1,041,546
2024	817,959
2025	327,063
Thereafter	62,505
	<u>\$4,527,476</u>

NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of December 31, 2020 and 2019:

	2020	2019
Trade payables	\$ 311,024	\$ 513,292
Accrued interest	554,755	641,834
Accrued payroll and related expenses	891,790	386,165
Current portion of operating lease liabilities	117,414	242,650
Other*	790,149	431,971
Total	<u>\$2,665,132</u>	<u>\$2,215,912</u>

* Included in other is accrued Board of Directors Compensation of \$349,000 and \$54,000 as of December 31, 2020 and December 31, 2019, respectively. We anticipate the non-management Board of Directors will be compensated for their service through the issuance of stock compensation after the next Annual Meeting.

NOTE 6 - NOTES PAYABLE, NET

The following is a summary of notes payable as of December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
Senior Unsecured Note	\$ -	\$ 2,000,000
Paycheck Protection Program	485,760	-
Installment loan payable related to a vehicle acquisition payable in monthly payments of \$539 per month at an interest rate of 10.8% per annum payable for 36 months	7,526	12,866
Total Principal Outstanding	\$ 493,286	\$ 2,012,866
Unamortized Deferred Debt Discount	-	(26,722)
Unamortized Deferred Debt Issuance Costs	-	(9,866)
Notes Payable, Net	\$ 493,286	\$ 1,976,278
Notes Payable, current portion, net of discounts and current portion	\$ 5,947	\$ 5,341
Notes Payable, net of discounts and current portion	487,339	1,970,937
	<u>\$ 493,286</u>	<u>\$ 1,976,278</u>

In January 2017, the Company issued a Senior Unsecured Note (“Note”) a face value of \$3,000,000, payable two years from issuance, along with an aggregate of 4,500,000 shares of Common Stock, with a fair value of \$1,147,500. 2018 change in terms of the Note payable has been determined to be a debt extinguishment in accordance with ASC 470. The Note was amended on February 14, 2020 to conform to the terms of the 2020 Convertible Notes Payable offering.

Furthermore, the Company and the Theodore Stern Revocable Trust, the (“Stern Trust”) entered an Amended and Restated Promissory Note (the “Restated Stern Note”) providing that the \$2,000,000 Note will be due and payable on the same terms (bearing interest at 15% per annum) and on the same maturity date as the 2020 Notes. The interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 has been capitalized and will earn interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$0.20 and the maturity of such interest shall be extended to the same maturity date as the 2020 Notes. The Company accounted for the Restated Stern Note as an extinguishment of the Note and recorded a charge of \$986,000 included in other expenses in accompanying consolidated statements of operations.

Paycheck Protection Program Loan

In May 2020, the Company received a loan of approximately \$486,000 under the Paycheck Protection Program (“PPP”) as part of the CARES Act which is administered by the U.S. Small Business Association (“USSBA”) related to its U.S. Operations. The Company anticipates subject to approval by the Small Business Administration, if certain requirements are met, the loan proceeds may be forgiven. Any amounts not forgiven will be required to be repaid. The loan bears interest at an annual rate 1% per annum and matures on May 5, 2022.

In January 2021, the Company received a second loan of approximately \$486,000 under the PPP related to its U.S. Operations. The Company anticipates subject to approval by USSBA, if certain requirements are met the second loan will be forgiven. Any amounts not forgiven will be required to be repaid.

If the USSBA determines that the PPP loan was not properly obtained and/or expenditures supporting forgiveness were not appropriate, the Company would need to repay some or all of the PPP loan and record additional expense which could have a material adverse effect on the Company’s financial condition and results of operations in a future period.

The following is a roll-forward of the Company’s notes payable and related discounts for the years ended December 31, 2020 and 2019:

	Principal Balance	Debt Discounts	Debt Issuance Costs	Total
Balance at January 1, 2019	\$ 2,000,000	\$ (39,466)	\$ (106,886)	\$ 1,853,648
Proceeds	16,510	-	-	16,510
Payments	(3,644)	-	-	(3,644)
Amortization	-	29,600	80,164	109,764
Balance at December 31, 2019	2,012,866	(9,866)	(26,722)	1,976,278
Proceeds	485,760	-	-	485,760
Payments	(5,340)	-	-	(5,340)
Conversion of note payable to convertible notes payable	(2,000,000)	-	-	(2,000,000)
Amortization	-	9,866	26,722	36,588
Balance at December 31, 2020	<u>\$ 493,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 493,286</u>

Future maturities of notes payable are as follows for the calendar years 2021 and 2022:

2021	\$ 5,947
2022	487,339
	<u>\$ 493,286</u>

NOTE 7 – CONVERTIBLE NOTES PAYABLE

On December 13, 2019, the Company entered into Securities Purchase Agreements with several accredited investors (the “8% Note Investors”) providing for the sale by the Company to the Investors of 8% Convertible Notes in the aggregate amount of \$428,000 (the “8% Notes”). The 8% Notes were to mature on November 30, 2021 and were a general unsecured obligation of the Company. The Company can prepay all or a portion of the 8% Notes at any time. The Company shall pay any interest on the 8% Notes at the rate of 8.0% per annum payable at the earlier of the maturity date or conversion date, in cash or, at the holder’s option, shares of common stock of the Company. At the option of the 8% Note investors, all or a portion of the 8% Notes may be converted into shares of common stock of the Company at a conversion price of \$0.08 per share. If the holders of the 8% Notes owning outstanding 8.0% Notes representing in excess of half of the aggregate outstanding principal amount of all 8% Notes provide notice to the Company of their intent to convert their 8% Notes, then all 8% Notes plus unpaid interest and other amounts owing to each of the holders shall be automatically converted.

In February 2020, the Company and the holders of the 8% Notes entered into an amendment agreement pursuant to which the principal and interest due under the 8% Notes will remain due and payable on the same terms as exist in the 8% Notes prior to modification, that the maturity shall be extended to the same maturity date as the 2020 Notes, namely February 28, 2022, and the 8% Notes became a secured obligation of the Company.

On February 14, 2020 the Company, entered into Securities Purchase Agreements with several accredited investors (the “2020 Note Investors”) providing 15% Senior Secured Convertible Notes in the aggregate amount of \$1,510,000 (the “2020 Notes”). Philip D. Beck, Chief Executive Officer and Chairman of the Board, invested \$50,000 in consideration of a 2020 Note in the principal amount of \$50,000 paid by a deduction from his salary. Theodore Stern, a director of the Company, invested \$50,000 in consideration of a 2020 Note in the principal amount of \$50,000. Herbert Selzer, a director of the Company invested \$100,000 in consideration of a 2020 Note in the principal amount of \$100,000. Mr. Selzer provided \$50,000 on the closing date and provided the balance of the funding in April 2020.

The 2020 Notes mature February 28, 2022 and are a secured obligation of the Company. The Company can prepay all or a portion of the 2020 Notes at any time provided that such amount prepaid shall be equal to 150% of the principal due. The Company shall pay interest on the 2020 Notes at the rate of 15% per annum payable at the earlier of the maturity date or conversion date, in cash or, at the investor’s option, shares of common stock of the Company.

At the option of the 2020 Note Investors, they may at any time convert the 2020 Notes. The number of shares delivered shall be equal to 150% of the amount of the principal converted divided by the conversion price of \$0.20 per share. The Company may require that the 2020 Note Investors convert all or a portion of the 2020 Notes, if the Company's volume weighted average price for any preceding 20-day period is equal to or greater than \$0.30.

The 2020 Note Investors are entitled to nominate, and the Company will not unreasonably reject the appointment of a new member to the Company's Board of Directors.

The Company and FIN Holdings, Inc. and ID Solutions, Inc., two of the Company's subsidiaries, entered into a security agreement with the 2020 Note Investors ("Security Agreement"), the holders of the 8% Notes and the Stern Trust, which is the holder of the Promissory Note in the principal amount of \$2,000,000 (the "Stern Note"). The Security Agreement provides that until the principal and accrued but unpaid interest under the 2020 Notes, 8% Notes and Stern Note is paid in full or converted pursuant to their terms, the Company's obligations under the 2020 Notes, 8% Notes and Stern Note will be secured by a lien on all assets of the Company. The security interest granted to the holders of the 2020 Notes, 8% Notes and Stern Note ranks *pari passu*. The Security Agreement permits sales of assets up to a value of \$1,000,000 which proceeds may be used for working capital purposes and the secured parties will take such steps as may be reasonably necessary to release its security interest and enable such sales in such circumstances. Each of the secured parties appointed Mr. Stern and a third-party investor as joint collateral agents. Mr. Stern, a director of the Company, is the trustee of the Stern Trust.

Further, the Company and the Stern Trust entered an Amended and Restated Promissory Note (the "Restated Stern Note") providing that the \$2,000,000 principal of the Stern Note will be due and payable on the same terms (bearing interest at 15% per annum) and on the same maturity date as the 2020 Notes. The interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 has been capitalized and will earn interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$0.20 and the maturity of such interest shall be extended to the same maturity date as the 2020 Notes.

In connection with this private offering, the Company paid Network 1 Financial Securities, Inc., a registered broker-dealer, a cash fee of approximately \$104,800.

The following is a summary of the convertible notes payable outstanding at December 31, 2020:

8% convertible notes payable issued December 2019	\$ 428,000
15% convertible notes payable issued February 2020	5,265,000
10% convertible notes payable issued February 2020	662,000
Unamortized discount on convertible notes	(494,138)
Unamortized debt issuance costs	(59,886)
	<u>\$ 5,800,976</u>

Future maturities of convertible notes payable are as follows:

2021	\$ -
2022	6,355,000
	<u>\$ 6,355,000</u>

NOTE 8 – RELATED PARTY TRANSACTIONS

2020 Transactions

Appointment of Executive Officers

Mr. Phillip Kumnick and Mr. Philip Broenniman, two of the Company's Director's became employed by the Company as Chief Executive Officer and President and Chief Operating Officer effective May 22, 2020.

Mr. Kumnick earned an initial base salary of \$125,000 per annum, which was increased to \$187,500 as of November 1, 2020 and is subject to review after one year. Mr. Kumnick was granted options to acquire 33,333,334 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions. Mr. Broenniman will earn an initial base salary of \$87,500 per annum which was increased to \$131,250 as of November 1, 2020 and is subject to review after one year. Mr. Broenniman was granted options to acquire 16,666,666 shares of common stock of which 20% vest at grant and the balance vest subject to performance conditions. Mr. Kumnick and Mr. Broenniman have bonus targets in their respective employment arrangements subject to meeting certain performance thresholds.

Issuance of Common Stock

During the year ended December 31, 2020, the Company granted 1,500,000 shares of Restricted Common Stock to each of Phillip Kumnick and Philip Broenniman, new members of our Board of Directors, in connection with their compensation for service as Board Members. The restricted stock vests upon the achievement of certain performance criteria. The performance criteria have not been met as of December 31, 2020. When the Company believes it is probable that these performance obligations will be met, the grant date fair value of the restricted stock will be ratably recognized over the expected service period.

Warrant Exercises

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's warrants exercisable at per share price of \$0.10 (the "\$0.10 Warrants") were exercised for cash at an exercise price of \$0.07 per share. In addition, the holders that exercised the \$0.10 Warrants received a warrant exercisable for two years to acquire one share of common stock at an exercise price of \$0.15 per share (the "\$0.15 Warrants") for every four \$0.10 Warrants exercised. Mr. Theodore Stern, a director of the Company, participated in the private transaction resulting in the issuance of 1,000,000 shares of common stock and 250,000 \$0.15 Warrants in consideration of \$70,000; and Varana Capital Focused, LP ("VCFLP"), participated in the private transaction resulting in the issuance of 3,716,667 shares of common stock and 929,167 \$0.15 Warrants, in consideration of \$260,167. Mr. Philip Broenniman, a director, the President and COO of the Company is the investment manager of VCFLP.

On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company's warrants exercisable at per share price of \$0.06 (the "\$0.06 Warrants") were exercised. In addition, the holders that exercised the \$0.06 Warrants also received a \$0.15 Warrant for every two \$0.06 Warrants exercised. Vista Associates, L.P., ("Vista") of which, Mr. Herbert Selzer a director of the Company, is the General Partner, participated in the private transaction resulting in the issuance of 880,000 shares of common stock and 440,000 \$0.15 Warrants, in consideration of \$52,800.

Sale of Common Stock

On June 30, 2020, the Company also entered into a Subscription Agreement with VCFLP pursuant to which VCFLP purchased 714,285 shares of common stock in consideration of \$50,000.

Convertible Notes Payable

Theodore Stern and Philip Beck (until October 30, 2020), members of the board of directors of the Company, invested \$50,000 each in consideration of the 2020 Notes. Another director, Herbert Selzer invested \$100,000 in consideration of a 2020 Note in the principal amount of \$100,000. Vista held 880,000 2015 Warrants, which were also extended as a result of Mr. Selzer's investment and as noted above were exercised for cash on June 30, 2020. See Note 7

Further, the Company and the Stern Trust entered the Restated Stern Note providing that the \$2,000,000 principal of the Stern Note will be due and payable on the same terms (bearing interest at 15% per annum) and on the same maturity date as the 2020 Notes and subject to the same Security Agreement. The interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 has been capitalized and will earn interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$0.20 and the maturity of such interest shall be extended to the same maturity date as the 2020 Notes. The Restated Stern Note includes a 50% repayment premium. Mr. Stern, the Trustee of the Stern Trust also entered into the Security Agreement as one of the joint collateral agents.

Other

In connection with the offering of the 2020 Notes and the sale of common stock in the fourth quarter of 2020, the Company paid Network 1 Financial Securities, Inc., a registered broker-dealer (“Network 1”), a cash fee of approximately \$471,800. A former member of the Company’s Board of Director’s maintains a partnership with a principal of Network 1.

Additionally, the Company rents office space in Long Beach, New York at a monthly cost of \$5,000 (as of January 1, 2020 reduced from \$7,425). The rent was further reduced to \$2,500 per month beginning October 1, 2020. The agreement is month to month and can be terminated on 30 days’ notice. The agreement is between the Company and Bridgeworks LLC, an entity principally owned by Mr. Beck, a former member of the Board of Director’s and his family. During years ended December 31, 2020 and 2019, the Company paid rent of \$52,500 and \$89,100 respectively.

On May 22, 2020, the Company and Mr. Beck entered into a separation letter agreement, which provided for payment to Mr. Beck of one year’s severance in the amount of \$350,000 as well as certain employee benefits, payable in accordance with the terms of Mr. Beck’s Retention Agreement. Mr. Beck’s severance is expected to be paid over a one-year period. Furthermore, the company will start recording the expense associated with Mr. Beck’s restricted stock agreement dated September 29, 2017. In connection with the separation letter agreement, the Company exchanged the September 29, 2017 Restricted Stock Agreement to substantially modify the vesting provisions of the previously issued 15,000,000 shares of restricted stock and allows a time-vesting provision whereby the restricted shares will fully vest by May 2022. On October 30, 2020, pursuant to the terms of Mr. Beck’s Restricted Stock Agreement, as amended by the Separation Agreement, the Company repurchased for \$1.00 the 15,000,000 Unvested Restricted Stock upon his resignation from the Board of Directors.

2019 Transactions

Notes Payable

During the year ended December 31, 2020, the Company recorded approximately \$240,000 of interest expense under the terms and conditions of the Stern Note (see Note 6) that is due to the Theodore Stern Revocable Trust, whose trustee Mr. Stern is a member of the Company’s Board of Directors.

Convertible Notes Payable

In December 2019, the Chairman of the Board of Directors invested \$25,000 in the 8% Notes offering. See Note 7.

Purchase of Common Stock

In June 2019, two of the Company’s Directors and one Officer purchased 1,562,500 shares of common stock of the 2019 offering as described in Note 9.

Other

In connection with the 2019 offering of common stock, the Company incurred fees to Network 1 Financial Securities Inc. (“Network 1”), a registered broker dealer, one of the Company’s financial advisors. The Network 1 fees were approximately \$109,000 paid in cash and 858,000 common stock purchase warrants with a fair value of approximately \$54,000 that are exercisable during a term of five years at a price of \$0.088 cents per share. A former member of the Company’s Board of Director’s maintains a partnership with a key principal of Network 1.

Additionally, the Company rents office space in Long Beach, New York at a monthly cost of \$7,425 (reduced to \$5,000 per month as of January 1, 2020). The agreement is month to month and can be terminated on 30 days’ notice. The agreement is between the Company and Bridgeworks LLC, an entity principally owned by Mr. Beck, our CEO, and his family.

NOTE 9 – STOCKHOLDERS’ EQUITY

The Company is authorized to issue 1,000,000,000 shares of common stock. The Company had 589,272,023 and 518,125,454 shares of common stock issued and outstanding as of December 31, 2020 and 2019, respectively. In addition, the Company is authorized to issue 20,000,000 shares of preferred stock but no shares of preferred stock have been issued.

Common Stock

2020 Common Stock Transactions

- During the year ended December 31, 2020, the Company granted 8,000,000 shares of Restricted Common Stock of which 3,000,000 shares were granted to two new members of our Board of Directors in connection with their compensation for service as Board Members and 5,000,000 to an employee in connection with his employment compensation. The shares were valued at the fair market value at the date of grant. The restricted stock vests upon the achievement of certain performance criteria.
- During the year ended December 31, 2020, the Company issued approximately 106,000 shares of common stock to a third-party provider of services in lieu of cash compensation.
- In June 2020, the Company entered into Subscription Agreements with two accredited investors (the “June 2020 Accredited Investors”) pursuant to which the June 2020 Accredited Investors agreed to purchase 3,441,558 shares of common stock for \$200,000.
- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.10 Warrants were exercised for cash at an exercise price of \$0.07 per share. In addition, the holders that exercised the \$0.10 Warrants received a \$0.15 Warrant for every four \$0.10 Warrants exercised. As a result, the Company issued 10,008,333 shares of common stock and 2,502,085 \$0.15 Warrants in consideration of \$700,583.
- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.05 Warrants were exercised for cash. In addition, the holders that exercised the \$0.05 Warrants received a \$0.15 Warrant for every two \$0.05 Warrants exercised. As a result, the Company issued 4,632,000 shares of common stock and 2,316,000 \$0.15 Warrants, in consideration of \$231,600. Separately, certain holders of the \$0.05 Warrants to acquire 1,770,000 shares of common stock exercised on a cashless basis resulting in the issuance of 560,659 shares of common stock.
- On June 30, 2020, Company entered into and consummated a private transaction pursuant to which a portion of the Company’s \$0.06 Warrants were exercised. In addition, the holders that exercised the \$0.06 Warrants also received \$0.15 Warrant for every two \$0.06 Warrants exercised. As a result, the Company issued 5,280,000 shares of common stock and 2,640,000 \$0.15 Warrants in consideration of \$316,800.

- On October 30, 2020 and on November 6, 2020, Ipsidy Inc. entered into Securities Purchase Agreements with several accredited investors (the “October 2020 Accredited Investors”) pursuant to which the October 2020 Accredited Investors agreed to purchase an aggregate of 52,435,000 shares of the Company’s common stock together with Warrants to acquire 26,217,500 shares of common stock for a term of five years at an exercise price of \$0.15 per share for an aggregate purchase price of approximately \$5.24 million. In connection with this private offering, the Company paid a registered broker-dealer, a cash fee of approximately \$367,000 and issue the broker-dealer a common stock purchase warrant to acquire approximately 3.15 million shares of common stock of the Company exercisable for a term of five years at an exercise price of \$0.15 per share.
- During 2020, the Company issued approximately 1.7 million share of common stock pursuant to cashless exercises of common stock purchase warrants and options, other than the June 2020 warrant exercises.

2019 Common Stock Transactions

- In June 2019, the Company entered into Subscription Agreements with accredited investors (the “2019 Accredited Investors”) pursuant to which the 2019 Accredited Investors purchased an aggregate of approximately 38,764,000 shares of the Company’s common stock for an aggregate purchase price of approximately \$3,100,000. In connection with the private offering, the Company paid a cash fee of approximately \$173,000 and issued 1,251,750 common stock purchase warrants with a fair value of approximately \$79,000 that are exercisable during a term of five years at an exercise price of \$0.088 per share.
- The Company also issued approximately 411,000 shares of common stock to two service providers in satisfaction of \$41,000 due for services.

The criteria for the 2019 and 2018 performance based restricted stock have not been met as of December 31, 2020.

Warrants

- During the year ended December 31, 2020, the Company issued approximately 29.4 million common stock warrants in connection with its sale of common stock in the 4th quarter of 2020 for a term of five years at an exercise price \$0.15 per share. Of the approximate 29.4 million shares, approximately 3.15 million shares were issued to a broker-dealer in connection with the sale of common stock.
- During the year ended December 31, 2020, the Company issued approximately 7.5 million common stock warrants for a term of five years at an average exercise price of \$0.15 cents in connection with cash exercises of previously issued warrants. The Company recorded a charge of approximately \$367,000 in connection with an inducement to the warrant holders who exercised their outstanding warrants.
- During the year ended December 31, 2019, the Company issued 1,251,750 common stock warrants to its investment bankers in connection with the June 2019 private common stock offering at an exercise price of \$0.088 cents for a period of five years.

See Common Stock Transaction above for a further description of the warrant issuances.

The following is a summary of the Company’s warrant activity for the years ended December 31, 2020 and 2019:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life
Outstanding on January 1, 2019	46,201,477	\$ 0.11	2.9 Years
Granted	1,251,750	\$ 0.09	5.0 Years
Exercised/Cancelled	-	\$ -	-
Outstanding at December 31, 2019	47,453,227	\$ 0.09	1.9 Years
Granted	36,821,683	\$ 0.15	5.0 Years
Exercised/Cancelled	(29,577,889)	\$ 0.06	-
Outstanding at December 31, 2020	<u>54,697,021</u>	\$ 0.14	3.4 Years

Stock Options

The Company has adopted the Ipsidy Inc. 2014 Equity Compensation Plan and the 2017 Incentive Stock Plan. The Company has no other stock options plans in effect as of December 31, 2020.

On November 21, 2014, our Board of Directors authorized the Ipsidy Inc. Equity Compensation Plan (the “2014 Plan”). On September 28, 2017, the shareholders of the Company approved the 2017 Incentive Stock Plan (“2017 Incentive Plan”). The following is a summary of principal features of the 2014 Plan and the 2017 Incentive Plan. The summaries, however, does not purport to be a complete description of all the provisions of each plan.

The terms of Awards granted under the plans shall be contained in an agreement between the participant and the Company and such terms shall be determined by the Compensation Committee consistent with the provisions of the applicable plan. The terms of Awards may or not require a performance condition in order to vest the equity comprised in the relevant Award. The terms of each Option granted shall be contained in a stock option agreement between the optionee and the Company and such terms shall be determined by the Compensation Committee consistent with the provisions of the applicable plan.

The Company has also granted equity awards that have not been approved by security holders.

2020 Stock Option Issuances

- During the year ended December 31, 2020, the Company granted Mr. Kumnick and Mr. Broenniman granted options to acquire 33,333,334 and 16,666,666 shares of common stock upon their employment. The options granted to Mr. Kumnick and Mr. Broenniman vest 20% at date of the grant with the balance vesting upon achieving certain performance thresholds. Additionally, the Company granted options to acquire approximately 12,674,000 shares of common stock to employees and one service provider in connection with service. The options have a term of ten years with vesting ranging from immediate to a three-year period. All options granted approximated fair value.

2019 Stock Option Issuances

- During the year ended December 31, 2019, the Company granted options to acquire 3,600,000 shares of common stock to one member of the Board of Directors and three employees at fair market value on date of grant. Of the 3,600,000 stock options, 3,475,000 options vest over a three-year period and 125,000 options vest upon achieving certain performance thresholds. The options have a term of ten years and the approximate fair value of the options as of the grant date was \$150,000.

The Company determined the grant date fair value of the options granted during the years ended December 31, 2020 and 2019 using the Black Scholes Method and the following assumptions:

	2020	2019
Expected Volatility	67% to 75%	75.0% to 80.0%
Expected Term	2.5 – 5.9 Years	2.5 – 5.9 Years
Risk Free Rate	0.33% to 0.5%	1.73% – 2.49%
Dividend Rate	0.00%	0.00%

Activity related to stock options for the years ended December 31, 2020 and 2019 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Yrs.)	Aggregate Intrinsic Value
Outstanding as of January 1, 2019	106,253,339	\$ 0.19	9.5	\$11,457,291
Granted	3,600,000	\$ 0.07	10.0	\$ -
Exercised/Forfeited	(453,333)	\$ 0.13	-	\$ -
Outstanding as of December 31, 2020	<u>109,400,006</u>	\$ 0.20	6.5	\$ 280,000
Granted	62,674,054	\$ 0.07	10.0	\$ -
Exercised/Forfeited	(2,699,999)	\$ 0.09	-	\$ -
Outstanding as of December 31, 2020	<u>169,374,061</u>	\$ 0.15	6.9	\$ 8,283,639
Exercisable as of December 31, 2020	<u>113,185,727</u>	\$ 0.19	6.5	\$ 4,862,410

The following table summarizes stock option information as of December 31, 2020:

Exercise Price	Outstanding	Weighted Average Life (Yrs.)	Exercisable
\$ 0.0001	3,500,000	5.5	3,500,000
\$ 0.05	33,700,006	6.4	30,950,006
\$ 0.06	1,044,054	9.4	1,044,054
\$ 0.07	50,000,000	9.7	10,000,000
\$ 0.09	11,630,000	0.8	-
\$ 0.10	27,200,000	6.5	27,200,000
\$ 0.12	400,001	9.0	158,334
\$ 0.12	600,000	8.5	200,000
\$ 0.13	250,000	7.6	250,000
\$ 0.15	2,800,000	5.6	2,800,000
\$ 0.22	2,583,333	7.8	2,083,333
\$ 0.25	2,500,000	7.6	1,833,333
\$ 0.26	166,667	8.1	166,667
\$ 0.29	1,000,000	7.1	1,000,000
\$ 0.40	1,000,000	5.9	1,000,000
\$ 0.45	31,000,000	5.6	31,000,000
	<u>169,374,061</u>	<u>6.9</u>	<u>113,185,727</u>

As of December 31, 2020, there was approximately \$801,000 of unrecognized compensation costs related to employee stock options outstanding which will be recognized in 2021 through 2023. The company will recognize forfeitures as they occur. Stock compensation expense for the years ended December 31, 2020 and 2019 was approximately \$823,000 and \$1,246,000, respectively.

The criteria for certain performance-based stock options have not been achieved as of December 31, 2020.

NOTE 10 – DIRECT FINANCING LEASE

In September 2016, the Company and an entity in Colombia entered into a rental contract for the rental of kiosks to provide cash collection and fare services at transportation stations. The lease term commenced in May 2017 when the kiosks were installed and operational. The term of the rental contract is ten years at an approximate monthly rental of \$11,900. The lessee has the option at the end of the lease term to purchase each unit for approximately \$40. The term of the lease approximates the expected economic life of the kiosks. As such, the lease was accounted for as a direct financing lease.

The Company has recorded the transaction at its net investment in the lease and will receive monthly payments of \$11,856 before estimated executory costs, or \$142,272, annually, to reduce investment in the lease and record income associated with the related amount due. Executory costs are estimated to be \$1,677 month and initial direct costs are not considered significant. The transaction resulted in incremental revenue in the years ended December 31, 2020 and 2019 of approximately \$56,800 and \$63,400, respectively.

The equipment under the capital lease is valued at approximately \$748,000. At the inception of the lease term, the aggregate minimum future lease payments to be received is approximately \$1,422,000 before executory cost. Unearned income is recorded at the inception of this lease was approximately \$474,000 and will be recorded over the term of the lease using the effective income rate method. Future minimum lease payments to be received under the lease for the next five years and thereafter are as follows:

Year Ending December 31,	
2021	\$ 122,148
2022	122,148
2023	122,148
2024	122,148
2025	122,148
Thereafter	40,716
	<u>651,456</u>
Less deferred revenue	(156,753)
Net investment in lease	<u>\$ 494,703</u>

NOTE 11 – LEASE OBLIGATION PAYABLE

The Company entered into a lease in March 2017 for the rental of its printer for its secured plastic and credential card products business under an arrangement that is classified as a capital lease. The leased equipment is amortized on a straight line basis over its lease term including the last payment (61 payments) which would transfer ownership to the Company. Total amortization related to the lease equipment as of December 31, 2020 is \$123,225. The following is a schedule showing the future minimum lease payments under capital lease by year and the present value of the minimum lease payments as of December 31, 2020. The interest rate related to the lease obligation is 12% and the maturity date is March 31, 2022. Future cash payments related to this capital lease are as follow for the calendar years ending in 2021 and 2022.

2021	\$ 43,096
2022	10,774
Total minimum lease payments	<u>53,870</u>
Less: Amount representing interest	<u>(4,076)</u>
Present value of minimum lease payments	<u>\$ 49,794</u>

NOTE 12 – INCOME TAXES

The Company accounts for income taxes in accordance with ASC 740 which prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. ASC 740 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim period, disclosure and transition. There were no unrecognized tax benefits as of December 31, 2020 and 2019.

The Company's loss before income taxes from US and Foreign sources for the years ended December 31, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
United States	\$ (8,899,719)	\$ (8,548,570)
Outside United States	(2,362,516)	(1,888,857)
Loss before income taxes	<u><u>\$ (11,262,235)</u></u>	<u><u>\$ (10,437,427)</u></u>

The following table summarizes the significant differences between the U.S. Federal statutory tax rate and the Company's effective tax rate for financial statement purposes for the years ended December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
US Federal statutory tax rate	21.00%	21.00%
State taxes	4.35%	4.35%
NOL true-ups	(14.93%)	5.27%
Change in valuation allowance	(10.42%)	(30.62%)
	<u><u>0.00%</u></u>	<u><u>0.00%</u></u>

The Company has paid certain minimum taxes and other obligations during the years ended December 31, 2020 and 2019 of approximately \$36,000 and \$63,000, respectively.

The tax effects of temporary differences that give rise to deferred tax assets and liabilities as of December 31, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Net operating loss	\$ 8,472,849	\$ 7,681,718
Stock options	6,359,279	6,632,746
Charitable contributions	1,267	1,267
Basis difference in intangible assets	64,848	7,405
Convertible note payable discount	205,557	-
Accrued payroll	186,159	51,907
Valuation allowance	(15,289,959)	(14,365,195)
Total deferred tax asset	<u><u>-</u></u>	<u><u>9,848</u></u>
Debt discounts	-	(6,769)
Debt issuance costs	-	(2,501)
Basis difference fixed assets	-	(578)
Total deferred tax liability	<u><u>-</u></u>	<u><u>(9,848)</u></u>
Net deferred tax asset	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

As of December 31, 2020, the Company has available federal net operating loss carry forward of \$33.4 million and state net operating loss carry forwards of \$33.4 million. Operating loss carryforwards of approximately \$14.4 million will expire through 2037 and the balance of \$19.0 million have an indefinite life. Additionally, the Company has income tax net operating loss carryforwards related to our international operations which have an indefinite life.

The Company assess the recoverability of its net operating loss carry forwards and other deferred tax assets and records a valuation allowance to the extent recoverability does not satisfy the “more likely than not” recognition criteria. The Company continues to maintain the valuation allowance until sufficient positive evidence exists to support full or partial reversal. As of December 31, 2020, the Company had a valuation allowance of approximately \$15.3 million against its deferred tax assets, net of deferred tax liabilities, due to insufficient positive evidence, primarily consisting of losses within the taxing jurisdictions that have tax attributes and deferred tax assets.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Legal Matters

From time to time the Company is a party to various legal or administrative proceedings arising in the ordinary course of our business. While any litigation contains an element of uncertainty, we have no reason to believe that the outcome of such proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

Executive Compensation

As of December 31, 2020, the Company had employment agreements with members of the management team providing base salary amounts and provisions for stock compensation, cash bonuses and other benefits to be granted at the discretion of the Board of Directors. Additionally, certain employment agreements include provisions for base salary, bonus amounts upon meeting certain performance milestones, severance benefits for involuntary termination from a change in control or other events as defined in their respective agreements. Additionally, the vesting of certain awards could be accelerated upon a change in control (as defined).

Leases

The lease related balances included in the Consolidated Balance Sheet as of December 31, 2020 were as follows:

Assets:

Current portion of operating lease ROU assets - included in other current assets	\$ 121,285
Operating lease ROU assets – included in Other Assets	<u>49,856</u>
Total operating lease assets	<u><u>\$ 171,141</u></u>

Liabilities:

Current portion of ROU liabilities – included in Accounts payable and accrued expenses	\$ 117,414
Long-term portion of ROU liabilities – included in Other liabilities	<u>47,809</u>
Total operating lease liabilities	<u><u>\$ 165,223</u></u>

The weighted average lease term remaining is 1.2 years and weighted average discount rate is 13.55%.

The following table presents the maturity of the Company’s operating lease liabilities as of December 31, 2020:

Years Ending December 31,	
2021	\$ 130,261
2022	49,716
Total operating lease payments	<u>179,977</u>
Less: Imputed interest	<u>(14,754)</u>
Total operating lease liabilities	<u>\$ 165,223</u>

The Company leased office space in Plantation, Florida. Monthly rental was approximately \$2,700 per month plus a share of building expenses. The lease ended in August 2020.

In October 2018, the Company leased office space in Alpharetta, Georgia, for approximately \$3,800 per month. The lease ended March 31, 2020.

Additionally, the Company rents office space in Long Beach, New York at a monthly cost of \$2,500 (reduced from \$5,000 in September 2020) and \$7,425 in 2020 and 2019, respectively. The agreement is month to month and can be terminated on 30 days notice. The agreement is between the Company and Bridgeworks LLC, an entity principally owned by Mr. Beck, our former CEO, former Board of Director and his family.

The Company leases an office location in Bogota, Colombia. In April 2017, MultiPay S.A.S. entered an office lease beginning April 22, 2017 for two years. The new lease cost is approximately \$8,500 per month with an inflation adjustment after one year. The lease was extended for one additional year through April 21, 2021. The Company leased an apartment for a management team member for approximately \$2,000 a month through April 2020. The Company intends to secure office space lease in Bogota with a smaller footprint and lower cost when its current lease expires in April 2021. The Company did not renew the apartment lease after it ended in October 2020.

The Company also leases space for its operation in South Africa. The current lease is through June 30, 2022 and the approximate monthly rent is \$8,000.

Rent expense included in general and administrative on the Consolidated Statements of Operations for the years ended December 31, 2020 and 2019 was approximately \$284,000 and \$439,000, respectively.

Potential Obligation

The Company has entered an agreement with a facial recognition software company for the grant of a perpetual license for commercial use (unless terminated for breach by either party). The initial payment under the license of \$160,000 was paid in 2018 with two additional installments due on the first and second anniversary of the Effective Date of the arrangement amounting to \$80,000 and \$40,000, respectively. The Company has recorded the outstanding liability and it is included in “Other of Accounts Payable and Accrued Expenses”. See Note 5. The Company is in discussion with the provider with respect to functionality as well as the financial obligation.

NOTE 14 – SEGMENT INFORMATION

General information

The segment and geographic information provided in the table below is being reported consistent with the Company’s method of internal reporting. Operating segments are defined as components of an enterprise for which separate financial information is available and which is evaluated regularly by the chief operating decision maker (“CODM”) in deciding how to allocate resources and in assessing performance. The CODM regularly reviews net revenue and gross profit by geographic regions. The Company products and services operate in two reportable segments: identity management and payment processing.

Information about revenue, profit/loss and assets

The CODM evaluates performance and allocates resources based on net revenue and operating results of the geographic region as the current operations of each geography are either primarily identity management or payment processing. Identity management revenue is generated in North America and Africa and payment processing is earned in South America which are the three geographic regions of the Company. We have included the lease income in payment processing as the leases are related to unattended ticking kiosks.

Long lived assets are in North America, South America and Africa. Most assets are intangible assets recorded from the acquisition of MultiPay (South America) in 2015 and FIN Holdings (North America and Africa) in 2016. Assets for North America, South America and Africa amounted to approximately \$9.1 million, \$0.4 million and \$1.4 million, respectively, of which \$4.2 million, \$0.0 million and \$1.2 million related to goodwill as of December 31, 2020.

Analysis of revenue by segment and geographic region and reconciliation to consolidated revenue, gross profit, and net loss are provided below. The Company has included in the schedule below an allocation of corporate overhead based on management's estimate of resource requirements.

	Year Ended December 31,	
	2020	2019
Net Revenues:		
North America	\$ 612,271	\$ 642,313
South America	349,374	455,475
Africa	1,178,999	1,454,257
	<u>2,140,644</u>	<u>2,552,045</u>
Identity Management	1,791,270	2,090,570
Payment Processing	349,374	455,475
	<u>2,140,644</u>	<u>2,552,045</u>
Loss from Operations		
North America	(2,237,745)	(3,536,664)
South America	(4,962,973)	(5,186,550)
Africa	(1,809,047)	(1,362,535)
	<u>(9,009,765)</u>	<u>(10,085,749)</u>
Identity Management	(4,046,792)	(4,899,199)
Payment Processing	(4,962,973)	(5,186,550)
	<u>(9,009,765)</u>	<u>(10,085,749)</u>
Interest Expense	(969,396)	(375,598)
Other (expense)/income	(1,283,074)	23,920
Loss before income taxes	<u>(11,262,235)</u>	<u>(10,437,427)</u>
Income tax expense	<u>(36,323)</u>	<u>(62,931)</u>
Net loss	<u><u>\$(11,298,258)</u></u>	<u><u>\$(10,500,358)</u></u>



Stuart P. Stoller
Chief Financial Officer
stuartstoller@ipsidy.com

Effective May 22, 2020

PRIVATE AND CONFIDENTIAL

Phillip L. Kumnick
549 Quail Ridge Lane
St. Albans, Missouri 63073

Re: Employment Offer

Dear Phillip:

The management of Ipsidy Inc. (the “**Company**”) takes pleasure in extending you this offer to join the Company as Chief Executive Officer reporting to the Board of Directors of the Company (the “**Board**”). As part of your responsibilities, you will be required to provide services to other subsidiaries and affiliates of the Company (together with the Company, collectively referred to as the “**Group**”).

Job Description

Your job responsibilities will comprise managing and overseeing all operations and matters of the Group, in order to establish a successful business and manage growth. In addition, you will undertake such functions as are customarily applicable to your position, as well as those that are reasonably assigned to you by the Board.

Compensation

Your compensation package shall consist of the following:

- (a) Initial base salary of \$125,000 per annum, which will be payable semi-monthly in arrears, and subject to all applicable deductions required by law (“**Salary**”).
- (b) Commencing November 1, 2021, your Salary shall be increased to \$187,500 per annum, payable semi-monthly in arrears, and subject to all applicable deductions required by law.
- (c) Your Salary shall be increased to \$250,000 per annum commencing on the first day of the calendar month immediately following the calendar month in which the Company files an Quarterly Report on Form 10-Q or Annual Report on Form 10-K (each an “SEC Filing”) that shows that the Company achieved Revenue for the year to date, in the case of a Form 10-Q, or the full year, in the case of the Form 10-K, as reported therein, in the amount of not less \$8,000,000.
- (d) Upon achievement of the Revenue target set forth in paragraph (c) above, the Board will promptly review your Salary to determine whether it is consistent with the status of the Company and the then prevailing market conditions for salary and other compensation for a chief executive in similarly situated companies. No later than thirty (30) days thereafter the Board will submit to you a written proposal for your Salary effective as of the date mentioned in paragraph (c) above, which shall not be less than the then applicable Salary. If you accept the Board’s proposal your Salary shall thereafter be fixed effective as of the aforementioned date. If you do not accept the Salary proposal the parties shall thereafter negotiate in good faith in order to achieve a mutually agreed Salary amount no later than sixty (60) days after the achievement of such Revenue target. If there is no such agreement the Salary shall continue at an amount equal to the lesser of the two parties’ proposals but not less than the then applicable Salary.

(e) You will also receive a cash bonus (“**Bonus**”) in the maximum aggregate amount of \$64,980 upon the achievement of performance milestones, calculated and payable as follows:

- (i) If the Company achieves Revenue for any fiscal year (or portion thereof) of at least \$3,500,000 but less than \$6,000,000, as shown on its filings with the Securities and Exchange Commission (“**SEC**”), the Company will pay to you a cash bonus of \$21,660 within ten (10) days of making the applicable SEC Filing.
- (ii) If the Company achieves Revenue for any fiscal year (or portion thereof) of at least \$6,000,000 but less than \$8,000,000, as shown on its SEC Filings, the Company will pay to you a cash bonus of \$21,660 within ten (10) days of making the applicable SEC Filing.
- (iii) If the Company achieves Revenue for any fiscal year (or portion thereof) of \$8,000,000 or more, as shown on its SEC Filings, the Company will pay to you a cash bonus of \$21,660 within ten (10) days of making the applicable SEC Filing.

The Bonus shall be payable with through the Company’s regular payroll process and will be subject to all applicable deductions required by law. The above proportions of the Bonus are cumulative and if more than one performance milestone is achieved on any particular date, then all proportions of the Bonus payable as a result shall be paid at the same time. For the avoidance of doubt, if you resign from the Company other than for Good Reason prior to the date of payment of the Bonus, or are terminated for Cause, or if none of the conditions set forth in sub-paragraphs (e) or (f) are fulfilled, then the Company shall not be obligated to pay any Bonus to you.

(f) The full Bonus (less any amounts previously paid) shall also be paid to you (irrespective of whether the Revenue performance targets have been achieved) upon the first to occur of the following:

- (1) a Change of Control (as defined in the Stock Option Agreement attached hereto as Exhibit “A” (“**Option Agreement**”)); or
- (2) your separation from service by reason of Involuntary Termination (as defined below).

(g) “**Revenue**” means the amount listed on the “*Total revenues, net*” line item on the Company’s Consolidated Statements of Operations as shown in any of the Company’s **SEC Filings**. For the purpose of the performance targets in paragraph (c) above Revenue shall mean the Revenue for the period commencing January 1, 2021 through the end of the period to which the relevant SEC Filing relates.

(h) You have been provided with an initial grant of options to purchase 33,333,334 shares of Common Stock of \$0.0001 par value in the Company (“**Common Stock**”). The terms of such option are hereby amended in accordance with the provisions of Exhibit “A” attached hereto.

(i) You may be eligible for equity incentive grants and cash bonus awards, subject to your continued employment and satisfactory job performance, which may be awarded from time to time, by the Board. Terms and conditions of all your equity incentive grants will be as determined by the Board and in accordance with the terms of the Company's Equity Incentive Plan in effect at the time of each such grant.

(j) The Company will indemnify you with respect to your services as an officer of the Company, to the fullest extent permitted by law and under the Company's Certificate of Incorporation and Bylaws. In addition, the Company acknowledges and agrees that you are a party to that certain Indemnification Agreement dated as of December 10, 2019, and that the Company's obligations under that agreement, including the obligations to indemnify you and to provide D&O Insurance (as defined in Section 3 of such Indemnification Agreement), will apply to your position as an officer of the Company.

With respect to additional terms of your employment, the following will apply:

1. At Will Employment; Termination on Change of Control.

(a) Your employment shall start on or about May 22, 2020, or such other date as we shall agree. While we look forward to a long and mutually beneficial relationship, your employment will be "at-will" and may be terminated at any time upon written notice and without prior warning. Further, your participation in any stock option or benefit program are not to be regarded as assuring you of continuing employment for any particular period of time. Any modification or change in your "at-will" employment status may only occur by way of a written employment agreement signed by you and authorized by the Board.

(b) In the event of your Termination Upon Change of Control, you shall be entitled to receive an amount equal to 1.5 times the amount of your Base Salary as of the Termination Date, which shall be paid according to the following schedule: (i) a lump sum payment equal to one-half of such amount shall be payable within ten (10) days following the Termination Date or if later the effective date of the Change of Control, and (ii) one-third of the balance of such amount shall be payable within ten (10) days of each of the three-month, six-month and nine-month anniversaries of the Termination Date or if later the effective date of the Change of Control (and in each case no interest shall accrue on such amount). In addition to the foregoing severance payment, in the event of your Termination Upon Change of Control, you shall be entitled to receive, within ten (10) days following the Termination Upon Change of Control, a lump sum payment equal to one hundred percent (100%) of any actual bonus amount earned with respect to a previous year to the extent that all the conditions for payment of such bonus have been satisfied (excluding any requirement to be in employment with the Company as of a given date which is after the Termination Date) and any such bonus was earned but is unpaid on the Termination Date.

(c) No Other Benefits. You shall be entitled to no other termination, severance or change of control compensation, benefits, or other payments from the Company as a result of any termination with respect to which the payments described in Section 1(b) have been provided to you.

(d) Release of Claims. The payment of the benefits described in Section 1(b) of this letter is conditioned upon the delivery by you to the Company of a signed and effective general release of claims as provided by the Company, in the form attached hereto as Exhibit D; provided, however, that you shall not be required to release any rights you may have to be indemnified by the Company or as otherwise provided under this letter.

(e) For purposes of this letter, the following terms shall have the following meanings:

“Base Salary” shall mean the greater of (i) your annual salary in effect immediately prior to the Change of Control, or (b) your annual salary in effect immediately prior to the Termination Date.

“Cause” shall mean you have: (i) willfully failed to perform, or been grossly negligent with respect to, any material duties assigned to you, other than due to a failure resulting from your Disability; (ii) been convicted of, or pled guilty or no contest to, any felony or crime involving immoral or unethical turpitude; (iii) committed an act of fraud, misappropriation, embezzlement or dishonesty with respect to the Company or any of its affiliates; (iv) willfully violated any material Company policy; or (v) breached any of the material terms of this letter, the Employee Invention Assignment & Confidentiality Agreement, the Company’s share dealing code, the Employee’s non-competition agreement or any other reasonable policies of the Company where non-compliance would be materially detrimental to the Company and in the case of clauses (i), (iv) and (v), to the extent such violation or breach is then curable, failed to cure such violation or breach (as determined by the Board in good faith) during a thirty (30)-day period following the date on which the Company gives you written notice of the breach.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Disability” shall occur if the Company reasonably determines, in good faith after consultation with a physician selected by the Company and reasonably acceptable to you, that you are unable to substantially perform your duties by reason of a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for either a continuous period of 180 days or for 180 non-consecutive days during any period of 270 consecutive days.

“Good Reason” shall mean the occurrence of any of the following events to which you do not consent: (i) a material breach by the Company of a material provision of this letter; or (ii) a material diminution in the nature or scope of your duties, responsibilities, or functions with respect to the Group (other than as a result of your Disability); (iii) a reduction in your Base Salary or, if applicable, target bonus opportunity (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned similar to the applicable performance requirements currently in effect), provided, however, that this sub-clause (iii) shall not apply in the event of a reduction in your Base Salary or, if applicable, target bonus opportunity as part of a Company-wide or executive team-wide cost-cutting measure or Company-wide or executive team-wide cutback as a result of overall Company performance. *Provided however* that no event shall constitute “Good Reason” hereunder unless you provide the Company with a written notice identifying the specific explanation of the basis for your belief that events, circumstances or conditions constituting Good Reason exist within seventy five (75) days of such events, circumstances or conditions initially arising and the Company fails to cure such event, circumstance or condition within thirty (30) days after receipt of such notice; and *provided further*, that you must resign upon or within thirty (30) days after the expiration of the above thirty (30)-day cure period to the extent the Company fails to cure such event, circumstance or condition.

“Involuntary Termination” shall mean: (i) any termination of your employment by the Company without Cause; (ii) any resignation by You for Good Reason ; (iii) any termination of your employment by the Company as a result of your Disability; or (iv) any termination of your employment as a result of your death. Notwithstanding the foregoing, the term “Involuntary Termination” shall not include any termination of your employment: (1) by the Company for Cause; (2) that occurs within the period of time to qualify as a “Termination Upon Change of Control”; or (3) as a result of the voluntary termination of employment by You for any reason other than Good Reason.

“Termination Date” shall mean the date of the termination of your employment with the Company, regardless of the reason.

“Termination Upon Change of Control” shall mean:

- (i) any termination of your employment by the Company without Cause (1) during the period commencing on or after the date that the Company first publicly announces a definitive agreement that results in a Change of Control (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date which is twelve (12) months following the Change of Control; or (2) the Company having commenced discussions for a Change of Control, during the period commencing six (6) months prior to the date that the Company first publicly announces a definitive agreement that results in a Change of Control pursuant to such discussions (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date of such public announcement;
- (ii) any resignation by you for Good Reason where (i) such Good Reason occurs during the period commencing on or after the date that the Company first publicly announces a definitive agreement that results in a Change of Control (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date which is twelve (12) months following the Change of Control, and (ii) such resignation occurs at or after such Change in Control.

Notwithstanding the foregoing, the term “Termination Upon Change of Control” shall not include any termination of your employment: (1) by the Company for Cause; (2) by the Company as a result of your Disability; (3) as a result of your death; or (4) as a result of the voluntary termination of employment by you for any reason other than Good Reason.

2. **Location and Travel.** You will be based at your home, but as part of your duties you will be required from time to time to travel to the Company's Long Beach, New York office and both within the United States and to the Company's subsidiaries in other countries, to the Company's offices and elsewhere.
 3. **Working Hours.** You will be expected to devote your full time and attention to your employment, to the extent necessary to carry out your duties hereunder. Because of the nature of your position, and as an exempt employee you will be required to work outside of usual working hours, where the circumstances and business needs require it. Nothing herein shall prevent or restrict you from engaging or being involved in any other business activity, including those listed in Exhibit "B" attached hereto, subject to compliance with your obligations to devote your full time and attention to your employment in this section and not to compete with the Company set forth in paragraph 9 below.
 4. **Paid Time Off.** You will be entitled to Paid Time Off in accordance with the provisions of the Company's Employee Handbook, which will accrue on a pro-rata basis during the year, in addition to all public holidays when the office is closed. Vacation may be taken upon reasonable prior notice to the Board. The Company's Employee Handbook contains further provisions relating to your entitlement and the taking of Paid Time Off, including the circumstances under which unused days may be carried over from one year to the next.
 5. **Sick & Personal Days.** Paid Time Off may be used for sick or personal days. The Company's Employee Handbook contains further provisions relating to the taking of sick or personal days, including the circumstances under which unused days may be carried over from one year to the next.
 6. **Benefits.** You will be eligible to participate in all employee benefit plans established by the Company for its employees from time to time. The Company currently offers the benefits that are detailed in the Employee Handbook.
 7. **Expense Reimbursement.** In accordance with Company policies from time to time, we will reimburse you for all reasonable and proper travel and business expenses incurred by you in the performance of your duties.
 8. **Confidentiality and Assignment of Inventions.** As an employee and executive of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, you will need to sign the Company's standard "Employee Invention Assignment and Confidentiality Agreement" in the form attached hereto as Exhibit "C" as a condition of your employment.
 9. **Covenant Not to Compete.** While you are employed by the Company and for the period of one (1) year after the termination of your employment for any reason whatsoever, you shall not directly or indirectly:
 - (a) be employed, or engaged as an independent contractor, or consultant in any position where your responsibilities would require you to directly or indirectly support/work on services and/or products that are in competition with the Group's businesses as they exist during your employment or on the date of your separation from the Company -- the Group's businesses currently consist of its identity management and payment and transaction processing products and solutions; However, the Company acknowledges that you have been engaged in part because of your prior experience in the payments industry and nothing herein shall prevent or restrict your ability to work in the payments industry after the termination of your employment by the Company, nor during the term of your employment to be involved in a payments business that does not compete with the Company, nor shall these restrictions apply to your work with or for any organization set forth in Exhibit B;
-

- (b) whether as an employee, independent contractor, consultant, or principal, enter into any agreement which is for the provision of services in competition with any of the Group's businesses, as they exist during your employment or on the date of your separation from the Company, with any entity, which is or was a customer of the Group, as of or at any time within six (6) months prior to your separation date, nor cause any such customer to enter into any such competitive agreement with any third party; and
- (c) whether on your own behalf or on behalf of any other person or entity (i) directly or indirectly solicit any employee of the Group to discontinue such employment relationship with the Group; or (ii) employ or seek to employ any person who is or was employed by the Group as of or at any time within six (6) months prior to your separation date; provided that this shall not apply to persons introduced by you to the Company;

You acknowledge that the restrictions set forth in this paragraph are reasonable and necessary for the protection of the Group's legitimate interests, in particular having regard to the sensitive position which you will hold and the high level of confidential and proprietary information regarding the Group's business operations, systems and customers to which you will have access, during the performance of your duties hereunder.

10. **No Restrictions.** You hereby warrant and represent that you are not subject to any restrictive covenant, or other agreement, which would prevent you from accepting this offer or from performing your obligations hereunder. To the extent that you are subject to confidentiality obligations to a former employer or any third party, you acknowledge and agree that it is your responsibility to ensure that you comply with such obligations on a continuing basis. You acknowledge that the Company is relying upon your warranty, representation and acknowledgement in this paragraph in making this offer to you. In the event of any claim against you or the Group by any third party arising out of a breach of this paragraph, you agree to indemnify and hold the Group (and its directors, officers and employees) harmless from and against all costs, claims and damages arising from such third party's claim.
 11. **Governing Law & Arbitration.** This offer and your employment shall be governed by and construed in accordance with the laws of the State of Missouri. Any claim, dispute or controversy arising out of this offer and your employment (other than claims relating to misuse or misappropriation of the intellectual property of the Company), the interpretation, validity or enforceability of this offer or the alleged breach thereof shall be submitted by the parties to binding arbitration by a sole arbitrator under the Employment Arbitration Rules of the American Arbitration Association; provided, however, that (a) the arbitrator shall have no authority to make any ruling or judgment that would confer any rights with respect to the trade secrets, confidential and proprietary information or other intellectual property of the Company upon you or any third party; and (b) this arbitration provision shall not preclude the Company from seeking legal and equitable relief from any court having jurisdiction with respect to any disputes or claims relating to or arising out of the misuse or misappropriation of the Company's intellectual property. Judgment may be entered on the award of the arbitrator in any court having jurisdiction. The site of the arbitration proceeding shall be in New York, New York. The costs of the arbitration shall be awarded by the arbitrator.
-

12. **Amendment.** No amendment or waiver of any of the provisions hereof shall be effective, unless in writing and signed by each party.
13. **Other Documents.** Your employment is subject to the Employment Handbook and terms and conditions (including benefits) applicable generally to employees of the Group, from time to time in force, which are subject to change, amendment, or deletion in the Company's sole discretion. As a condition of your employment you will also be required to enter into certain standard undertakings and consents, regarding confidentiality, security, use of the Group's facilities and property and background checks. As part of our objective of continuous improvement and in order to comply with certain customer and audit requirements, you will also be required to undergo training at least annually on various matters including data security. In accordance with our standard policy this employment offer is subject to our receiving satisfactory references and civil and criminal background checks, and by signing this letter you hereby consent to our undertaking such reference and background checks.
14. **Section 409A of the Code.** The intent of the parties is that payments and benefits under this letter comply with Section 409A of the Code and the Treasury Regulations and guidance promulgated thereunder ("Section 409A"), to the extent subject thereto, and accordingly, to the maximum extent permitted, this letter shall be interpreted and administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, you shall not be considered to have terminated employment with the Company for purposes of any provision in this letter providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment until you would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A and this letter shall be interpreted consistently therewith. It is intended that each amount paid (including an installment thereof), or benefit to be provided hereunder, shall be construed as and constitute separate and distinct "payments" for purposes of Section 409A. Without limiting the foregoing, and notwithstanding anything to the contrary contained herein, to the extent (a) any payments or benefits to which you become entitled under this letter, or under any agreement or plan referenced herein, in connection with your termination of employment from the Company constitute deferred compensation subject to Section 409A and (b) you are deemed at the time of such termination to be a "specified employee" under Section 409A, then such payments shall not be made or commence until the earlier of (i) the first business day after the expiration of the six (6)-month period immediately following the date of your "separation from service" (as such term is at the time defined in Section 409A) from the Company; or (ii) the date of your death following such separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid accelerated taxation and/or tax penalties under Section 409A in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to you or your beneficiary in one lump sum (without interest). To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A, amounts reimbursable to you under or as provided in this letter shall be paid to you on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided to you) during one year may not affect amounts reimbursable or provided in any subsequent year. It is further intended that payments hereunder satisfy, to the greatest extent possible, the exemption from the application of Section 409A (and any state law of similar effect) provided under Treasury Regulation Section 1.409A-1(b)(4) (as a "short-term deferral"). Whenever this letter specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company. The Company makes no representation that any or all of the payments described or referenced in this letter will be exempt from or comply with Section 409A and makes no undertaking to preclude Section 409A from applying to any such payment. You understand and agree that you shall be solely responsible for the payment of any taxes, penalties interest or other expenses incurred by you on account of non-compliance with Section 409A.
-



If the terms and the conditions of this letter are acceptable to you, please sign, date and return an original of this letter to us.

We look forward to a long and mutually beneficial relationship.

Sincerely,

IPSIDY INC.

By: /s/ Stuart Stoller
Stuart P. Stoller, CFO

AGREED & ACCEPTED:

/s/ Phillip Kumnick
PHILLIP L. KUMNICK

Dated: December 31, 2020

EXHIBIT A

IPSIDY INC.
AMENDED & RESTATED NONSTATUTORY STOCK OPTION AGREEMENT

THIS NONSTATUTORY STOCK OPTION AGREEMENT (“**Agreement**”) is made and entered into as of the date set forth in Section 1(a) below, by and between Ipsidy Inc., a Delaware corporation (the “**Company**”), and the following individual (“**Optionee**”) and is hereby amended and restated as set forth herein as of _____, 2020:

In consideration of the covenants herein set forth, the parties hereto agree as follows:

1. Option Information.

- | | | |
|-----|-------------------|--------------------|
| (a) | Date of Option: | May 22, 2020 |
| (b) | Optionee: | Phillip L. Kumnick |
| (c) | Number of Shares: | 33,333,334 |
| (d) | Exercise Price: | \$0.07 |
| (e) | Expiration Date: | May 22, 2025 |

2. Acknowledgements.

- (a) Optionee is a Director and Chief Executive Officer of the Company.

(b) Optionee is a party to that certain employment letter effective May 22, 2020 governing the terms of his employment with the Company (“**Employment Letter**”).

(c) The Board of Directors (the “**Board**” which term shall include an authorized committee of the Board of Directors) and shareholders of the Company have heretofore adopted a 2017 Incentive Stock Plan (the “**Plan**”), pursuant to which this Option is being granted; and

(d) The Board has authorized the granting to Optionee of a nonstatutory stock option (“**Option**”) to purchase shares of common stock of the Company (“**Stock**”) upon the terms and conditions hereinafter stated and pursuant to an exemption from registration under the Securities Act of 1933, as amended (the “**Securities Act**”) provided by Section 4(2) thereunder.

3. Shares; Price. Company hereby grants to Optionee the right to purchase, upon and subject to the terms and conditions herein stated, the number of shares of Stock set forth in Section 1(c) above (the “**Shares**”) for cash (or other consideration as is authorized under the Plan and acceptable to the Board of Directors of the Company, in their sole and absolute discretion) at the price per Share set forth in Section 1(d) above (the “**Exercise Price**”), such price being not less than the fair market value per share of the Shares covered by this Option as of the date hereof.

4. Term of Option; Continuation of Service. This Option shall expire, and all rights hereunder to purchase the Shares shall terminate, five (5) years from the date hereof, as set forth in Section 1(e) above (“**Expiration Date**”). This Option shall earlier terminate subject to Sections 7 and 8 hereof upon, and as of the date of, the termination of Optionee’s office or employment if such termination occurs prior to the Expiration Date. Nothing contained herein shall confer upon Optionee the right to the continuation of his or her office or employment with the Company or to interfere with the right of the Company to terminate such office or employment or to increase or decrease the compensation of Optionee from the rate in existence at the date hereof.

5. Vesting of Option. Subject to the provisions of Sections 7 and 8 hereof, this Option shall become exercisable and the Shares shall vest during the term of Optionee's office or employment as follows:

- (a) 6,666,667 of the Shares shall vest and become exercisable on the date of this grant; and
- (b) 10,666,667 of the Shares shall vest and become exercisable upon satisfaction of the first to occur of the following conditions:
 - (i) A minimum annualized revenue run-rate of the Company and its subsidiaries on a consolidated basis of \$10,000,000, based on the revenue for any quarterly period, excluding non-recurring one-time payments (as defined below), determined in accordance with United States Generally Accepted Accounting Principles ("GAAP") as shown in any of the Company's Annual Reports on Form 10-K, or Quarterly Reports on Form 10-Q filed with the SEC (collectively "SEC Filings") after the date hereof.
 - (ii) A Change of Control of the Company, or a strategic investment of at least \$5,000,000, each at a valuation of the Company which equates to a Market Capitalization (as defined below) of the Company of not less than \$100,000,000
 - (iii) The Company's shares of Stock achieving a closing price on the principal market or exchange on which such shares are traded, which gives rise to a Market Capitalization of the Company of not less than \$100,000,000 for 20 consecutive trading days.
- (c) 16,000,000 of the Shares shall vest and become exercisable upon satisfaction of the first to occur of the following conditions:
 - (i) A minimum annualized revenue run-rate of the Company and its subsidiaries on a consolidated basis of \$25,000,000, based on the revenue for any quarterly period, excluding non-recurring one-time payments, determined in accordance with GAAP as shown in any of the Company's SEC Filings after the date hereof.
 - (ii) A Change of Control of the Company, or a strategic investment of at least \$15,000,000, each at a valuation of the Company which equates to a Market Capitalization of the Company of not less than \$200,000,000.
 - (iii) The Company's shares of Stock achieving a closing price on the principal market or exchange on which such shares are traded, which gives rise to a Market Capitalization of the Company of not less than \$200,000,000 for 20 consecutive trading days.
- (d) If in the event of a Change of Control (i) it is not possible as of the date of closing of such Change of Control to determine the valuation of the Company for the purposes of Sections 5(b)(ii) or 5(c)(ii) above, whether due to some element of the consideration being deferred, or payable subject to a contingency or conditions, or being non-cash consideration which cannot be valued at such date; and (ii) provided that in the event that the maximum value (if any) agreed to by the parties to the transaction of the gross consideration receivable under the Change of Control transaction is not less than the amounts set forth in Sections 5(b)(ii) or 5(c)(ii) above respectively, then the relevant unvested Shares shall respectively vest and become exercisable upon such Change of Control, as if the maximum value had been achieved.¹

¹ By way of example under Section 5(d)(ii) if the acquiror sets a maximum value of all consideration of say, \$50 million then no shares shall vest. If the maximum value is say \$150 million but it is not possible to determine the value at closing of the Change of Control, then all Option shares under Section 5(b) shall vest upon closing. If the maximum value is say \$250 million, or there is no maximum but it is not possible to determine the value at closing of the Change of Control, then all Option shares under Sections 5(b) & 5(c) shall vest upon closing.

- (e) If Optionee's office and employment by the Company are terminated in the following circumstances:
- (i) Termination by the Company other than for Cause (as defined in the Employment Letter) after the end of the relevant quarter which would satisfy the conditions set forth in Section 5(b)(i), or 5(c)(i) above, but before the publication of the relevant SEC Filings; or
 - (ii) The occurrence of a Termination upon Change of Control as defined in Section 1(e) of the Employment Letter, prior to the occurrence of a Change of Control which would satisfy the conditions set forth in Sections 5(b)(ii), or 5(c)(ii), or 5(d) above but subject to the closing of such Change of Control; or
 - (iii) Termination by the Company other than for Cause during the period commencing 10 consecutive trading days and ending before the 20th consecutive trading day referenced in Sections 5(b)(iii) or 5(c)(iii) above

Such that in each of the above-referenced cases Optionee's Shares would not vest solely as a result of such termination, then such number of Shares shall vest as is set forth in the relevant sub-section of Section 5(b) or (c) or (d) as would have vested upon satisfaction of the applicable condition but for such termination by the Company.

- (f) **"Change of Control"** shall mean (i) the Company is party to a merger or consolidation or sale of stock or a series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), directly or indirectly, at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; OR (ii) the sale or disposition of all or substantially all of the Company's assets, or consummation of any transaction, or series of related transactions, having similar effect (other than to a subsidiary of the Company); except if any of these events set forth in (i) or (ii) occurs in circumstances of the liquidation of the Company pursuant to a bankruptcy or other insolvency proceeding.
- (g) **"Market Capitalization"** shall mean the amount which results from the following calculations or determinations:
- (i) In the case of the closing price condition, the product of: (x) the closing price of the shares of Stock on the principal market or exchange on which the Company's shares are traded on the relevant date multiplied by (y) the number of issued and outstanding shares of Stock on the relevant date.
 - a. In the case of the Change of Control condition the implied value of the Company based on the gross proceeds of the Change of Control transaction, comprising the aggregate of the cash amount and the market value of any publicly traded securities and the fair value agreed by the parties to the transaction of any non-traded, non-cash consideration, including any debt, equity or other property comprising any part of the gross consideration received or receivable by the Company and/or its Shareholders upon the consummation of any Change of Control transaction;

- b. In the case of the strategic investment transaction condition, the product of: (x) the purchase price of the shares of Stock or other securities which are issued to the investor(s) on an “as converted to common stock” per share basis multiplied by (y) the number of issued and outstanding shares of common Stock on the closing date, immediately prior to the closing of the investment and excluding any securities or shares issuable pursuant to the strategic investment transaction.
- (h) “**Non-recurring one-time payments**” shall mean any revenue or accounts receivable derived from (i) sales of inventory, goods, equipment, or other assets of the Group not in the ordinary course of business, (ii) transaction revenue not received in the ordinary course of business, (iii) sales of services not in the ordinary course of business, or (iv) revenue received due to one-time, non-recurring transactions. *By way of example, if in a particular quarter the Company has \$3,000,000 of revenue but \$1,000,000 results from the sale of a subsidiary, or its assets, then for the purposes of the revenue condition the Company shall be deemed to have had revenue of \$2,000,000 in that quarter and an annualized revenue run rate of \$8,000,000.*

The installments shall be cumulative (i.e., this option may be exercised, as to any or all Shares covered by an installment, at any time or times after an installment becomes exercisable and until expiration or termination of this Option).

6. Exercise.

(a) Standard Exercise. This Option shall be exercised by delivery to the Company of (i) written notice of exercise stating the number of Shares being purchased (in whole shares only) and such other information set forth on the form of Notice of Exercise attached hereto as Appendix A, (ii) a check or cash in the amount of the Exercise Price of the Shares covered by the notice (or such other consideration as has been approved by the Board of Directors consistent with the Plan) and (iii) a written investment representation as provided for in Section 13 hereof. This Option shall not be assignable or transferable, except by will or by the laws of descent and distribution, and shall be exercisable only by Optionee during his or her lifetime, except as provided in Section 8 hereof.

(b) Cashless Exercise. Notwithstanding anything to the contrary contained in this Option, this Option may be exercised by presentation and surrender of this Option to the Company at its principal executive offices with a written notice of the holder’s intention to effect a cashless exercise, and such other information set forth on the form of Notice of Exercise attached hereto as Appendix A, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a “**Cashless Exercise**”). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Option for that number of shares of Common Stock determined by multiplying the number of Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price per share of the Common Stock and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock. Market Price is defined as the average of the last reported sale prices on the principal trading market for the Common Stock during the five (5) trading days immediately preceding such exercise date.

7. Termination of Appointment. If Optionee shall cease to be a director, employee or contractor of the Company for any reason, whether voluntarily or involuntarily, other than by his or her death, Optionee (or if the Optionee shall die after such termination, but prior to such exercise date, Optionee's personal representative or the person entitled to succeed to the Option) shall have the right at any time within three (3) months following such termination of office or the remaining term of this Option, whichever is the lesser, to exercise in whole or in part this Option to the extent, but only to the extent, that this Option was exercisable as of the date of termination of office and had not previously been exercised; provided, however: (i) if Optionee is Disabled (as defined in the Employment Letter) at the time of termination, the foregoing three (3) month period shall be extended to six (6) months; or (ii) if Optionee is terminated for Cause this Option shall automatically terminate as to all Shares covered by this Option not exercised prior to termination. Unless earlier terminated, all rights under this Option shall terminate in any event on the Expiration Date.

8. Death of Optionee. If the Optionee shall die while holding office of the Company, Optionee's personal representative or the person entitled to Optionee's rights hereunder may at any time within six (6) months after the date of Optionee's death, or during the remaining term of this Option, whichever is the lesser, exercise this Option and purchase Shares to the extent, but only to the extent, that Optionee could have exercised this Option as of the date of Optionee's death; provided, in any case, that this Option may be so exercised only to the extent that this Option has not previously been exercised by Optionee.

9. No Rights as Shareholder. Optionee shall have no rights as a shareholder with respect to the Shares covered by any installment of this Option until the effective date of issuance of the Shares following exercise of this Option, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued except as provided in Section 10 hereof.

10. Recapitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by this Option, and the Exercise Price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a subdivision or consolidation of shares or the payment of a stock dividend, or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company; provided however that the conversion of any convertible securities of the Company shall not be deemed having been "effected without receipt of consideration by the Company".

11. Reorganization. The grant of this Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes in its capital or business structure or to merge, consolidate, dissolve or liquidate or to sell or transfer all or any part of its business or assets. The provisions of the Plan shall govern the rights of the Optionee in the event of a Reorganization as defined in the Plan.

12. Taxation upon Exercise of Option. Optionee understands that, upon exercise of this Option, Optionee will recognize income for Federal and state income tax purposes in an amount equal to the amount by which the fair market value of the Shares, determined as of the date of exercise, exceeds the Exercise Price. The acceptance of the Shares by Optionee shall constitute an agreement by Optionee to report such income in accordance with then applicable law and to cooperate with Company in establishing the amount of such income and corresponding deduction to the Company for its income tax purposes. Withholding for federal or state income and employment tax purposes will be made, if and as required by law, from Optionee's then current compensation, or, if such current compensation is insufficient to satisfy withholding tax liability, the Company may require Optionee to make a cash payment to cover such liability as a condition of the exercise of this Option.

13. Modification, Extension and Renewal of Options. The Board or Committee, as described in the Plan, may modify, extend or renew this Option or accept the surrender thereof (to the extent not theretofore exercised) and authorize the granting of a new option in substitution therefor (to the extent not theretofore exercised), subject at all times to the Plan, the Code and all relevant securities statutes and rules. Notwithstanding the foregoing provisions of this Section 13, no modification shall, without the consent of the Optionee, alter to the Optionee's detriment or impair any rights of Optionee hereunder.

14. Investment Intent; Restrictions on Transfer.

(a) Optionee represents and agrees that if Optionee exercises this Option in whole or in part, Optionee will in each case acquire the Shares upon such exercise for the purpose of investment and not with a view to, or for resale in connection with, any distribution thereof; and that upon such exercise of this Option in whole or in part, Optionee (or any person or persons entitled to exercise this Option under the provisions of Sections 7 and 8 hereof) shall furnish to the Company a written statement to such effect, satisfactory to the Company in form and substance. If the Shares represented by this Option are registered under the Securities Act, either before or after the exercise of this Option in whole or in part, the Optionee shall be relieved of the foregoing investment representation and agreement and shall not be required to furnish the Company with the foregoing written statement.

(b) Optionee further represents that Optionee has had access to the published financial statements and other information of the Company, has had the opportunity to ask questions of the Company concerning its business, operations and financial condition, and to obtain additional information reasonably necessary to verify the accuracy of such information.

(c) Unless and until the Shares represented by this Option are registered under the Securities Act, all certificates representing the Shares and any certificates subsequently issued in substitution therefor and any certificate for any securities issued pursuant to any stock split, share reclassification, stock dividend or other similar capital event shall bear legends in substantially the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR OTHERWISE QUALIFIED UNDER THE SECURITIES ACT OF 1933 (THE 'SECURITIES ACT') OR UNDER THE APPLICABLE OR SECURITIES LAWS OF ANY STATE. NEITHER THESE SECURITIES NOR ANY INTEREST THEREIN MAY BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER THE SECURITIES ACT OR ANY APPLICABLE SECURITIES LAWS OF ANY STATE, UNLESS PURSUANT TO EXEMPTIONS THEREFROM.

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED PURSUANT TO THAT CERTAIN NONSTATUTORY STOCK OPTION AGREEMENT DATED _____ BETWEEN THE COMPANY AND THE ISSUEE WHICH RESTRICTS THE TRANSFER OF THESE SHARES WHICH ARE SUBJECT TO REPURCHASE BY THE COMPANY UNDER CERTAIN CONDITIONS.

and/or such other legend or legends as the Company and its counsel deem necessary or appropriate. Appropriate stop transfer instructions with respect to the Shares have been placed with the Company's transfer agent.

15. Stand-off Agreement. Optionee agrees that, in connection with any registration of the Company's securities under the Securities Act, and upon the request of the Company or any underwriter managing an underwritten offering of the Company's securities, Optionee shall not sell, short any sale of, loan, grant an option for, or otherwise dispose of any of the Shares (other than Shares included in the offering) without the prior written consent of the Company or such managing underwriter, as applicable, for a period of at least six months following the effective date of registration of such offering.

16. Notices. Any notice required to be given pursuant to this Option or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to Optionee at the address last provided by Optionee for his or her employee/officer records.

17. Agreement Subject to Plan; Applicable Law. This Option is made pursuant to the Plan and shall be interpreted to comply therewith. A copy of such Plan is available to Optionee, at no charge, at the principal office of the Company. Any provision of this Option inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan. This Option has been granted, executed and delivered in the State of Delaware, and the interpretation and enforcement shall be governed by the laws thereof and subject to the exclusive jurisdiction of the courts therein.

IN WITNESS WHEREOF, the parties hereto have executed this Option as of the date first above written.

COMPANY:

IPSIDY INC.,
a Delaware corporation

By: /s/ Stuart Stoller
Name: Stuart Stoller
Title: Chief Financial Officer

OPTIONEE:

By: /s/ Phillip Kumnick
(signature)
Name: PHILLIP L. KUMNICK

Appendix A

NOTICE OF EXERCISE

Ipsidy Inc.

Re: Nonstatutory Stock Option

Notice is hereby given pursuant to Section 6 of my Nonstatutory Stock Option Agreement that I elect to purchase the number of shares set forth below at the exercise price set forth in my option agreement:

Nonstatutory Stock Option Agreement dated: _____

Number of shares being purchased: _____

Exercise Price: \$ _____

EITHER

1) A check in the amount of the aggregate price of the shares being purchased is attached.

OR

2) I elect a cashless exercise pursuant to Section 6 of my Stock Option Agreement. The Market Price* as of _____ was \$ _____ resulting in the issuance of _____ shares of common stock on a cashless exercise basis.

* Market Price is defined as the average of the last reported sale prices on the principal trading market for the Common Stock during the five (5) trading days immediately preceding such exercise date.

Further, I understand that the exercise of the Options will give rise to taxable income at the time of exercise, which will be payable in addition to the Exercise Price under the Option, whether by deduction from my compensation, or by my additional payment to the Company.

I hereby confirm that such shares are being acquired by me for my own account for investment purposes, and not with a view to, or for resale in connection with, any distribution thereof. I will not sell or dispose of my Shares in violation of the Securities Act of 1933, as amended, or any applicable federal or state securities laws.

I understand that the certificate representing the Option Shares will bear a restrictive legend within the contemplation of the Securities Act and as required by such other state or federal law or regulation applicable to the issuance or delivery of the Option Shares.

I agree to provide to the Company such additional documents or information as may be required pursuant to the Company's 2017 Incentive Stock Plan.

By: _____

Dated: _____

EXHIBIT B

Permitted Activities

Organization	Role
LoginID Inc.	Stockholder & advisor
Rewards Media, Inc. d/b/a Giftz	Stockholder & advisor
RMMBD Holdings Inc.	Stockholder & advisor
Medinexo Telehealth Mission Corp	Stockholder & advisor
PLK & Associates (Independent Consultant)	Principal
Including expert networks: GLG, Alphasights, Guidepoint Global	
Sphere Payments LLC	Proxy Board Member

EXHIBIT C

EMPLOYEE INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT

THIS EMPLOYEE INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT is entered into as of the 22nd day of May, 2020 between the undersigned **PHILLIP L. KUMNICK** residing at 549 Quail Ridge Lane St. Albans, Missouri 63073, and **IPSIDY INC.**, a Delaware corporation with a place of business at 670 Long Beach Boulevard, Long Beach, New York 11561 USA, (the “**Company**”).

WHEREAS, I have agreed to be an employee of the Company or one of its affiliated entities (collectively referred to herein as the “**Company**”).

IN CONSIDERATION OF, and as a condition of my employment with the Company (the receipt and sufficiency of which I hereby acknowledge) I hereby represent to, and agree with the Company as follows:

1. Purpose of Agreement. I understand that it is critical for the Company to preserve and protect its rights in “**Inventions**” (as defined in Section 2 below), its “**Confidential Information**” (as defined in Section 7 below) and in all related intellectual property rights. Accordingly, I am entering into this Employee Invention Assignment and Confidentiality Agreement (this “**Agreement**”) as a condition of my employment with the Company.

2. Disclosure of Inventions. I will promptly disclose in confidence to the Company all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets (the “**Inventions**”) that I make or conceive or first reduce to practice or create, either alone or jointly with others, during the period and in the course of my employment, whether or not such Inventions are patentable, copyrightable or protectable as trade secrets.

3. Work for Hire. I acknowledge and agree that any copyrightable works prepared by me within the scope of my employment, excluding any such works prepared prior to the date hereof, are “works made for hire” under the Copyright Law of the United States and that the Company will be considered the author and owner of such copyrightable works.

4. Assignment of Inventions. I agree that all Inventions that (i) have been or are developed using equipment, supplies, facilities, Confidential Information, or trade secrets of the Company, (ii) result from work performed by me for the Company, or (iii) relate to the Company’s business or current research and development (the “**Assigned Inventions**”), will be the sole and exclusive property of the Company and are hereby irrevocably assigned by me to the Company.

5. Assignment of Other Rights; Moral Rights. In addition to the foregoing assignment of Assigned Inventions to the Company, I hereby irrevocably transfer and assign to the Company: (i) all worldwide patents, patent applications, copyrights, mask works, trade secrets and other intellectual property rights, including but not limited to rights in databases, in any Assigned Inventions, along with any registrations of or applications to register such rights; and (ii) any and all “Moral Rights” (as defined below) that I may have in or with respect to any Assigned Inventions. I also hereby forever waive and agree never to assert any and all Moral Rights I may have in or with respect to any Assigned Inventions, even after termination of my work on behalf of the Company. “**Moral Rights**” mean any rights to claim authorship of or credit on an Assigned Invention, to object to or prevent the modification or destruction of any Assigned Inventions, or to withdraw from circulation or control the publication or distribution of any Assigned Inventions, and any similar right, existing under judicial or statutory law of any country or subdivision thereof in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a “moral right.”

6. Assistance. I agree to reasonably assist the Company, at the Company's cost, to obtain for the Company patents, copyrights, mask work rights, trade secret rights and other legal protections for the Company's Assigned Inventions in any and all countries. I will execute any documents that the Company may reasonably request for use in obtaining or enforcing such patents, copyrights, mask work rights, trade secrets and other legal protections. My obligations under this paragraph will continue beyond the termination of my employment with the Company, provided that the Company will compensate me at a reasonable rate after such termination for time or expenses actually spent by me at the Company's request on such assistance. I appoint the Secretary of the Company as my attorney-in-fact to execute documents on my behalf for this purpose.

7. Confidential Information. I understand that my employment by the Company creates a relationship of confidence and trust with respect to any information that may be disclosed to me by the Company and its officers, employees, shareholders or agents, whether orally, in writing, by computer or other medium, by demonstration, by supply of samples and parts or in any other manner, or which is otherwise accessible to me, that relates to the business of the Company or to the business of any parent, subsidiary, affiliate, customer or supplier of the Company including all information received by the Company from third parties, which is subject to an obligation of confidentiality (the "**Confidential Information**"). Such Confidential Information includes, but is not limited to, Assigned Inventions, computer programming and software, Company products and services, systems, functionality, designs, hardware, parts, concepts, specifications, features, techniques, plans, marketing, sales, performance, cost, pricing, supplier and customer information, data, tables, schedules, contracts and other information concerning the Company and its customers. I hereby acknowledge that all such Confidential Information belongs to the Company (or the respective customer, supplier or third party, which supplied it to the Company.)

8. Confidentiality. At all times during my employment and for two years after its termination, I will keep and hold all such Confidential Information in strict confidence and trust. I will not use or disclose any Confidential Information without the prior written consent of the Company, except as may be necessary to perform my duties as an employee of the Company for the benefit of the Company, and except to my advisors who need to have such information in order to advise me. I will be responsible for any breach of this Agreement by any of my advisors to whom I provide Confidential Information as if such advisors were a party hereto. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company and I will not take with me or retain any documents or materials or copies thereof containing any Confidential Information, in each case other than my tax returns and documents related to my stock options and investments in the Company. I agree that I shall at all times comply with the Company's Information Security Policy and Procedures from time to time in force. **I acknowledge that breach of this policy or any other provision of this Agreement may be grounds for immediate dismissal.**

9. No Breach of Agreement or Infringement. I represent that my acceptance of the Company's offer of employment, performance of all the terms of this Agreement and my duties as an employee of the Company will not so far as I am aware breach any invention assignment, proprietary information, confidentiality or similar agreement with any other party, nor infringe the rights of any third party. I represent that I will not bring with me to the Company or use in the performance of my duties for the Company any documents or materials or intangibles of a former employer or third party that are not generally available to the public or have not been legally transferred to the Company. I acknowledge that the Company is relying upon my warranty, representation and acknowledgement in this paragraph in offering me employment.

10. Notification. I hereby authorize the Company to notify my future employers of the terms of this Agreement and my responsibilities hereunder.

11. Injunctive Relief. I understand that in the event of a breach or threatened breach of this Agreement by me the Company may suffer irreparable harm and will therefore be entitled to seek injunctive relief to enforce this Agreement.

12. Governing Law; Jurisdiction. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving effect to that body of laws pertaining to conflict of laws. I hereby submit to the jurisdiction of and consent to suit in the courts, Federal and State located in the State of New York with respect to any matter or dispute arising out of this Agreement.

13. Severability. If any provision of this Agreement is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Agreement and the remainder of this Agreement shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Agreement.

14. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement.

15. Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

16. Amendment and Waivers. This Agreement may be amended only by a written agreement executed by each of the parties hereto. No amendment of or waiver of, or modification of any obligation under this Agreement will be enforceable unless set forth in a writing signed by the party against which enforcement is sought. Any amendment effected in accordance with this section will be binding upon all parties hereto and each of their respective successors and assigns. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. No waiver granted under this Agreement as to any one provision herein shall constitute a subsequent waiver of such provision or of any other provision herein, nor shall it constitute the waiver of any performance other than the actual performance specifically waived.

17. Successors and Assigns; Assignment. Except as otherwise provided in this Agreement, this Agreement, and the rights and obligations of the parties hereunder, will be binding upon and inure to the benefit of their respective successors, assigns, heirs, executors, administrators and legal representatives. The Company may assign any of its rights and obligations under this Agreement to any entity which is my employer. No other party to this Agreement may assign, whether voluntarily or by operation of law, any of its rights and obligations under this Agreement, except with the prior written consent of the Company.

18. Further Assurances. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

SIGNED AS OF THIS 31st DAY OF DECEMBER 2020

PHILLIP L. KUMNICK

/s/ Phillip Kumnick

EXHIBIT D

RELEASE OF CLAIMS

This General Release of all Claims (this "Release") is entered into on [●], by and between Ipsidy Inc., a Delaware corporation (the "Company"), and Phillip L. Kumnick (the "Executive").

In accordance with Section 1(d) of the Employment Offer letter by and between the Company and the Executive, effective May 22, 2020 (the "Employment Letter"), in consideration of the payments and benefits to which the Executive is entitled pursuant to Section 1(b) of the Employment Letter subject to the execution and non-revocation of this Release, the Executive agrees as follows:

- General Release and Waiver of Claims.

- o *Release.* The Executive and each of the Executive's respective heirs, executors, administrators, representatives, agents, successors and assigns (collectively, the "Releasors") hereby irrevocably and unconditionally release and forever discharge the Company and each of its subsidiaries and affiliates and each of their respective officers, employees, directors, managers, shareholders and agents ("Releasees") from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, "Claims"), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have or in the future may possess, arising out (i) of the Executive's employment relationship with and service as an employee, officer, manager or director of the Company, and the termination of such relationship or service and (ii) any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; *provided, however,* that notwithstanding anything else herein to the contrary, this Release shall not affect: the obligations of the Company to pay the amounts set forth under the heading "Compensation" in the Employment Letter (including any Deferred Pay) due and owing to Executive on the Termination Date or other obligations that, in each case, by their terms, are to be performed after the date hereof by the Company; any indemnification or similar rights the Executive has as a current or former officer, manager or director of the Company, including, without limitation, any and all rights thereto referenced in the Company's governance documents or any rights with respect to "directors' and officers'" insurance policies; and the Executive's right to reimbursement of business expenses.
- o *Specific Release of ADEA Claims.* The Releasors hereby unconditionally release and forever discharge the Releasees from any and all Claims that the Releasors may have as of the date the Executive signs this Release arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder ("ADEA"). By signing this Release, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with his termination to consult with an attorney of his choice prior to signing this Release and to have such attorney explain to the Executive the terms of this Release, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than twenty-one (21) calendar days to consider the terms of this Release and to consult with an attorney of his choosing with respect thereto; and (iii) the Executive knowingly and voluntarily accepts the terms of this Release. The Executive also understands that he has seven (7) calendar days following the date on which he signs this Release within which to revoke the release contained in this paragraph, by providing the Company a written notice of his revocation of the release and waiver contained in this paragraph.

- o *Release of All Claims.* The Executive acknowledges, understands and agrees that he may later discover Claims or facts in addition to or different from those which he now knows or believes to be true with respect to the subject matters of this Release, but that it is nevertheless his intention by signing this Release to fully, finally and forever release any and all Claims whether now known or unknown, suspected or unsuspected, which now exist, may exist, or previously have existed as set forth herein.
- o *No Assignment.* The Executive represents and warrants that he has not assigned any of the Claims being released under this Release.

- Proceedings. The Executive has not filed, and agrees not to initiate or cause to be initiated on his behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body, other than in respect of any matter described in the proviso to Section 1(a) of this Release (each, individually, a “Proceeding”), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.

- Remedies. The Executive understands that by entering into this Release he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Company.

- Severability Clause. In the event any provision or part of this Release is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Release, will be inoperative.

- Non-admission. Nothing contained in this Release will be deemed or construed as an admission of wrongdoing or liability on the part of the Company.

- Governing Law. All matters affecting this Release, including the validity thereof, are to be governed by, and interpreted and construed in accordance with, the laws of the State of Missouri applicable to contracts executed in and to be performed in that State.

- Capitalized Terms. Capitalized terms used but not defined herein have the meanings ascribed to them in the Employment Letter.

THE EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS RELEASE AND THAT HE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT HE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HIS OWN FREE WILL.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Executive has executed this Release on the date first set forth below.

EXECUTIVE:

Phillip L. Kumnick

ACKNOWLEDGED AND AGREED

IPSIDY INC.

By: _____

Its: _____

[Signature Page to Release of Claims]



Stuart P. Stoller
Chief Financial Officer
stuartstoller@ipsidy.com

Effective May 22, 2020

PRIVATE AND CONFIDENTIAL

Philip R. Broenniman
2130 Hermosa Drive
Boulder, Colorado 80304

Re: Employment Offer

Dear Philip:

The management of Ipsidy Inc. (the “**Company**”) takes pleasure in extending you this offer to join the Company as President and Chief Operating Officer reporting to the Chief Executive Officer of the Company. As part of your responsibilities, you will be required to provide services to other subsidiaries and affiliates of the Company (together with the Company, collectively referred to as the “**Group**”).

Job Description

Your job responsibilities, working in conjunction with the CEO, will comprise managing and overseeing the day-to-day operations of the Group, in order to establish a successful business and manage growth. Primarily these areas of responsibility will comprise the sales, marketing and operational functions of the Group in support of customer acquisition and customer implementation and success. In addition, you will undertake such functions as are customarily applicable to your position, as well as those that are reasonably assigned to you by the CEO or the Board of Directors (the “**Board**”).

Compensation

Your compensation package shall consist of the following:

- (a) Initial base salary of \$87,500 per annum, which will be payable semi-monthly in arrears, and subject to all applicable deductions required by law (“**Salary**”).
- (b) Commencing November 1, 2021, your Salary shall be increased to \$131,250 per annum, payable semi-monthly in arrears, and subject to all applicable deductions required by law.
- (c) Your Salary shall be increased to \$175,000 per annum commencing on the first day of the calendar month immediately following the calendar month in which the Company files an Quarterly Report on Form 10-Q or Annual Report on Form 10-K (each an “SEC Filing”) that shows that the Company achieved Revenue for the year to date, in the case of a Form 10-Q, or the full year, in the case of the Form 10-K, as reported therein, in the amount of not less \$8,000,000.
- (d) Upon achievement of the Revenue target set forth in paragraph (c) above, the Board will promptly review your Salary to determine whether it is consistent with the status of the Company and the then prevailing market conditions for salary and other compensation for a chief operating officer in similarly situated companies. No later than thirty (30) days thereafter the Board will submit to you a written proposal for your Salary effective as of the date mentioned in paragraph (c) above, which shall not be less than the then applicable Salary. If you accept the Board’s proposal your Salary shall thereafter be fixed effective as of the aforementioned date. If you do not accept the Salary proposal the parties shall thereafter negotiate in good faith in order to achieve a mutually agreed Salary amount no later than sixty (60) days after the achievement of such Revenue target. If there is no such agreement the Salary shall continue at an amount equal to the lesser of the two parties’ proposals but not less than the then applicable Salary.

(e) You will also receive a cash bonus (“**Bonus**”) in the maximum aggregate amount of \$45,833 upon the achievement of performance milestones, calculated and payable as follows:

- (i) If the Company achieves Revenue for any fiscal year (or portion thereof) of at least \$3,500,000 but less than \$6,000,000, as shown on its filings with the Securities and Exchange Commission (“**SEC**”), the Company will pay to you a cash bonus of \$15,277 within ten (10) days of making the applicable SEC Filing.
- (ii) If the Company achieves Revenue for any fiscal year (or portion thereof) of at least \$6,000,000 but less than \$8,000,000, as shown on its SEC Filings, the Company will pay to you a cash bonus of \$15,278 within ten (10) days of making the applicable SEC Filing.
- (iii) If the Company achieves Revenue for any fiscal year (or portion thereof) of \$8,000,000 or more, as shown on its SEC Filings, the Company will pay to you a cash bonus of \$15,278 within ten (10) days of making the applicable SEC Filing.

The Bonus shall be payable with through the Company’s regular payroll process and will be subject to all applicable deductions required by law. The above proportions of the Bonus are cumulative and if more than one performance milestone is achieved on any particular date, then all proportions of the Bonus payable as a result shall be paid at the same time. For the avoidance of doubt, if you resign from the Company other than for Good Reason prior to the date of payment of the Bonus, or are terminated for Cause, or if none of the conditions set forth in sub-paragraphs (e) or (f) are fulfilled, then the Company shall not be obligated to pay any Bonus to you.

(f) The full Bonus (less any amounts previously paid) shall also be paid to you (irrespective of whether the Revenue performance targets have been achieved) upon the first to occur of the following:

- (1) a Change of Control (as defined in the Stock Option Agreement attached hereto as Exhibit “A” (“**Option Agreement**”)); or
- (2) your separation from service by reason of Involuntary Termination (as defined below).

(g) “**Revenue**” means the amount listed on the “*Total revenues, net*” line item on the Company’s Consolidated Statements of Operations as shown in any of the Company’s **SEC Filings**. For the purpose of the performance targets in paragraph (c) above Revenue shall mean the Revenue for the period commencing January 1, 2021 through the end of the period to which the relevant SEC Filing relates.

(h) You have been provided with an initial grant of options to purchase 16,666,666 shares of Common Stock of \$0.0001 par value in the Company (“**Common Stock**”). The terms of such option are hereby amended in accordance with the provisions of Exhibit “A” attached hereto.

(i) You may be eligible for equity incentive grants and cash bonus awards, subject to your continued employment and satisfactory job performance, which may be awarded from time to time, by the Board. Terms and conditions of all your equity incentive grants will be as determined by the Board and in accordance with the terms of the Company’s Equity Incentive Plan in effect at the time of each such grant.

(j) The Company will indemnify you with respect to your services as an officer of the Company, to the fullest extent permitted by law and under the Company’s Certificate of Incorporation and Bylaws. In addition, the Company acknowledges and agrees that you are a party to that certain Indemnification Agreement dated as of December 10, 2019, and that the Company’s obligations under that agreement, including the obligations to indemnify you and to provide D&O Insurance (as defined in Section 3 of such Indemnification Agreement), will apply to your position as an officer of the Company.

With respect to additional terms of your employment, the following will apply:

1. At Will Employment; Termination on Change of Control.

(a) Your employment shall start on or about May 22, 2020, or such other date as we shall agree. While we look forward to a long and mutually beneficial relationship, your employment will be “at-will” and may be terminated at any time upon written notice and without prior warning. Further, your participation in any stock option or benefit program are not to be regarded as assuring you of continuing employment for any particular period of time. Any modification or change in your “at-will” employment status may only occur by way of a written employment agreement signed by you and authorized by the Board.

(b) In the event of your Termination Upon Change of Control, you shall be entitled to receive an amount equal to 1.5 times the amount of your Base Salary as of the Termination Date, which shall be paid according to the following schedule: (i) a lump sum payment equal to one-half of such amount shall be payable within ten (10) days following the Termination Date or if later the effective date of the Change of Control, and (ii) one-third of the balance of such amount shall be payable within ten (10) days of each of the three-month, six-month and nine-month anniversaries of the Termination Date or if later the effective date of the Change of Control (and in each case no interest shall accrue on such amount). In addition to the foregoing severance payment, in the event of your Termination Upon Change of Control, you shall be entitled to receive, within ten (10) days following the Termination Upon Change of Control, a lump sum payment equal to one hundred percent (100%) of any actual bonus amount earned with respect to a previous year to the extent that all the conditions for payment of such bonus have been satisfied (excluding any requirement to be in employment with the Company as of a given date which is after the Termination Date) and any such bonus was earned but is unpaid on the Termination Date.

(c) No Other Benefits. You shall be entitled to no other termination, severance or change of control compensation, benefits, or other payments from the Company as a result of any termination with respect to which the payments described in Section 1(b) have been provided to you.

(d) Release of Claims. The payment of the benefits described in Section 1(b) of this letter is conditioned upon the delivery by you to the Company of a signed and effective general release of claims as provided by the Company, in the form attached hereto as Exhibit D; provided, however, that you shall not be required to release any rights you may have to be indemnified by the Company or as otherwise provided under this letter.

(e) For purposes of this letter, the following terms shall have the following meanings:

“Base Salary” shall mean the greater of (i) your annual salary in effect immediately prior to the Change of Control, or (b) your annual salary in effect immediately prior to the Termination Date.

“Cause” shall mean you have: (i) willfully failed to perform, or been grossly negligent with respect to, any material duties assigned to you, other than due to a failure resulting from your Disability; (ii) been convicted of, or pled guilty or no contest to, any felony or crime involving immoral or unethical turpitude; (iii) committed an act of fraud, misappropriation, embezzlement or dishonesty with respect to the Company or any of its affiliates; (iv) willfully violated any material Company policy; or (v) breached any of the material terms of this letter, the Employee Invention Assignment & Confidentiality Agreement, the Company’s share dealing code, the Employee’s non-competition agreement or any other reasonable policies of the Company where non-compliance would be materially detrimental to the Company and in the case of clauses (i), (iv) and (v), to the extent such violation or breach is then curable, failed to cure such violation or breach (as determined by the Board in good faith) during a thirty (30)-day period following the date on which the Company gives you written notice of the breach.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Disability” shall occur if the Company reasonably determines, in good faith after consultation with a physician selected by the Company and reasonably acceptable to you, that you are unable to substantially perform your duties by reason of a medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for either a continuous period of 180 days or for 180 non-consecutive days during any period of 270 consecutive days.

“Good Reason” shall mean the occurrence of any of the following events to which you do not consent: (i) a material breach by the Company of a material provision of this letter; or (ii) a material diminution in the nature or scope of your duties, responsibilities, or functions with respect to the Group (other than as a result of your Disability); (iii) a reduction in your Base Salary or, if applicable, target bonus opportunity (subject to applicable performance requirements with respect to the actual amount of bonus compensation earned similar to the applicable performance requirements currently in effect), provided, however, that this sub-clause (iii) shall not apply in the event of a reduction in your Base Salary or, if applicable, target bonus opportunity as part of a Company-wide or executive team-wide cost-cutting measure or Company-wide or executive team-wide cutback as a result of overall Company performance. *Provided however* that no event shall constitute “Good Reason” hereunder unless you provide the Company with a written notice identifying the specific explanation of the basis for your belief that events, circumstances or conditions constituting Good Reason exist within seventy five (75) days of such events, circumstances or conditions initially arising and the Company fails to cure such event, circumstance or condition within thirty (30) days after receipt of such notice; and *provided further*, that you must resign upon or within thirty (30) days after the expiration of the above thirty (30)-day cure period to the extent the Company fails to cure such event, circumstance or condition.

“Involuntary Termination” shall mean: (i) any termination of your employment by the Company without Cause; (ii) any resignation by You for Good Reason ; (iii) any termination of your employment by the Company as a result of your Disability; or (iv) any termination of your employment as a result of your death. Notwithstanding the foregoing, the term “Involuntary Termination” shall not include any termination of your employment: (1) by the Company for Cause; (2) that occurs within the period of time to qualify as a “Termination Upon Change of Control”; or (3) as a result of the voluntary termination of employment by You for any reason other than Good Reason.

“Termination Date” shall mean the date of the termination of your employment with the Company, regardless of the reason.

“Termination Upon Change of Control” shall mean:

- (i) any termination of your employment by the Company without Cause (1) during the period commencing on or after the date that the Company first publicly announces a definitive agreement that results in a Change of Control (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date which is twelve (12) months following the Change of Control; or (2) the Company having commenced discussions for a Change of Control, during the period commencing six (6) months prior to the date that the Company first publicly announces a definitive agreement that results in a Change of Control pursuant to such discussions (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date of such public announcement;
- (ii) any resignation by you for Good Reason where (i) such Good Reason occurs during the period commencing on or after the date that the Company first publicly announces a definitive agreement that results in a Change of Control (even though still subject to approval by the Company’s stockholders and other conditions and contingencies, but provided that the Change of Control actually occurs) and ending on the date which is twelve (12) months following the Change of Control, and (ii) such resignation occurs at or after such Change in Control.

Notwithstanding the foregoing, the term “Termination Upon Change of Control” shall not include any termination of your employment: (1) by the Company for Cause; (2) by the Company as a result of your Disability; (3) as a result of your death; or (4) as a result of the voluntary termination of employment by you for any reason other than Good Reason.

2. **Location and Travel.** You will be based at your home, but as part of your duties you will be required from time to time to travel to the Company's Long Beach, New York office and both within the United States and to the Company's subsidiaries in other countries, to the Company's offices and elsewhere.
 3. **Working Hours.** You will be expected to devote your full time and attention to your employment, to the extent necessary to carry out your duties hereunder. Because of the nature of your position, and as an exempt employee you will be required to work outside of usual working hours, where the circumstances and business needs require it. Nothing herein shall prevent or restrict you from engaging or being involved in any other business activity, including those listed in Exhibit "B" attached hereto, subject to compliance with your obligations to devote your full time and attention to your employment in this section and not to compete with the Company set forth in paragraph 9 below.
 4. **Paid Time Off.** You will be entitled to Paid Time Off in accordance with the provisions of the Company's Employee Handbook, which will accrue on a pro-rata basis during the year, in addition to all public holidays when the office is closed. Vacation may be taken upon reasonable prior notice to the Board. The Company's Employee Handbook contains further provisions relating to your entitlement and the taking of Paid Time Off, including the circumstances under which unused days may be carried over from one year to the next.
 5. **Sick & Personal Days.** Paid Time Off may be used for sick or personal days. The Company's Employee Handbook contains further provisions relating to the taking of sick or personal days, including the circumstances under which unused days may be carried over from one year to the next.
 6. **Benefits.** You will be eligible to participate in all employee benefit plans established by the Company for its employees from time to time. The Company currently offers the benefits that are detailed in the Employee Handbook.
 7. **Expense Reimbursement.** In accordance with Company policies from time to time, we will reimburse you for all reasonable and proper travel and business expenses incurred by you in the performance of your duties.
 8. **Confidentiality and Assignment of Inventions.** As an employee and executive of the Company, you will have access to certain confidential information of the Company and you may, during the course of your employment, develop certain information or inventions that will be the property of the Company. To protect the interests of the Company, you will need to sign the Company's standard "Employee Invention Assignment and Confidentiality Agreement" in the form attached hereto as Exhibit "C" as a condition of your employment.
-

9. **Covenant Not to Compete.** While you are employed by the Company and for the period of one (1) year after the termination of your employment for any reason whatsoever, you shall not directly or indirectly:
- (a) be employed, or engaged as an independent contractor, or consultant in any position where your responsibilities would require you to directly or indirectly support/work on services and/or products that are in competition with the Group's businesses as they exist during your employment or on the date of your separation from the Company -- the Group's businesses currently consist of its identity management and payment and transaction processing products and solutions; However, the Company acknowledges that you have been engaged in part because of your prior experience in the payments industry and nothing herein shall prevent or restrict your ability to work in the payments industry after the termination of your employment by the Company, nor during the term of your employment to be involved in a payments business that does not compete with the Company, nor shall these restrictions apply to your work with or for any organization set forth in Exhibit B;
 - (b) whether as an employee, independent contractor, consultant, or principal, enter into any agreement which is for the provision of services in competition with any of the Group's businesses, as they exist during your employment or on the date of your separation from the Company, with any entity, which is or was a customer of the Group, as of or at any time within six (6) months prior to your separation date, nor cause any such customer to enter into any such competitive agreement with any third party; and
 - (c) whether on your own behalf or on behalf of any other person or entity (i) directly or indirectly solicit any employee of the Group to discontinue such employment relationship with the Group; or (ii) employ or seek to employ any person who is or was employed by the Group as of or at any time within six (6) months prior to your separation date; provided that this shall not apply to persons introduced by you to the Company;

You acknowledge that the restrictions set forth in this paragraph are reasonable and necessary for the protection of the Group's legitimate interests, in particular having regard to the sensitive position which you will hold and the high level of confidential and proprietary information regarding the Group's business operations, systems and customers to which you will have access, during the performance of your duties hereunder.

10. **No Restrictions.** You hereby warrant and represent that you are not subject to any restrictive covenant, or other agreement, which would prevent you from accepting this offer or from performing your obligations hereunder. To the extent that you are subject to confidentiality obligations to a former employer or any third party, you acknowledge and agree that it is your responsibility to ensure that you comply with such obligations on a continuing basis. You acknowledge that the Company is relying upon your warranty, representation and acknowledgement in this paragraph in making this offer to you. In the event of any claim against you or the Group by any third party arising out of a breach of this paragraph, you agree to indemnify and hold the Group (and its directors, officers and employees) harmless from and against all costs, claims and damages arising from such third party's claim.
11. **Governing Law & Arbitration.** This offer and your employment shall be governed by and construed in accordance with the laws of the State of Missouri. Any claim, dispute or controversy arising out of this offer and your employment (other than claims relating to misuse or misappropriation of the intellectual property of the Company), the interpretation, validity or enforceability of this offer or the alleged breach thereof shall be submitted by the parties to binding arbitration by a sole arbitrator under the Employment Arbitration Rules of the American Arbitration Association; provided, however, that (a) the arbitrator shall have no authority to make any ruling or judgment that would confer any rights with respect to the trade secrets, confidential and proprietary information or other intellectual property of the Company upon you or any third party; and (b) this arbitration provision shall not preclude the Company from seeking legal and equitable relief from any court having jurisdiction with respect to any disputes or claims relating to or arising out of the misuse or misappropriation of the Company's intellectual property. Judgment may be entered on the award of the arbitrator in any court having jurisdiction. The site of the arbitration proceeding shall be in New York, New York. The costs of the arbitration shall be awarded by the arbitrator.
-

12. **Amendment.** No amendment or waiver of any of the provisions hereof shall be effective, unless in writing and signed by each party.
13. **Other Documents.** Your employment is subject to the Employment Handbook and terms and conditions (including benefits) applicable generally to employees of the Group, from time to time in force, which are subject to change, amendment, or deletion in the Company's sole discretion. As a condition of your employment you will also be required to enter into certain standard undertakings and consents, regarding confidentiality, security, use of the Group's facilities and property and background checks. As part of our objective of continuous improvement and in order to comply with certain customer and audit requirements, you will also be required to undergo training at least annually on various matters including data security. In accordance with our standard policy this employment offer is subject to our receiving satisfactory references and civil and criminal background checks, and by signing this letter you hereby consent to our undertaking such reference and background checks.
14. **Section 409A of the Code.** The intent of the parties is that payments and benefits under this letter comply with Section 409A of the Code and the Treasury Regulations and guidance promulgated thereunder ("Section 409A"), to the extent subject thereto, and accordingly, to the maximum extent permitted, this letter shall be interpreted and administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, you shall not be considered to have terminated employment with the Company for purposes of any provision in this letter providing for the payment of any amounts or benefits subject to Section 409A upon or following a termination of employment until you would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A and this letter shall be interpreted consistently therewith. It is intended that each amount paid (including an installment thereof), or benefit to be provided hereunder, shall be construed as and constitute separate and distinct "payments" for purposes of Section 409A. Without limiting the foregoing, and notwithstanding anything to the contrary contained herein, to the extent (a) any payments or benefits to which you become entitled under this letter, or under any agreement or plan referenced herein, in connection with your termination of employment from the Company constitute deferred compensation subject to Section 409A and (b) you are deemed at the time of such termination to be a "specified employee" under Section 409A, then such payments shall not be made or commence until the earlier of (i) the first business day after the expiration of the six (6)-month period immediately following the date of your "separation from service" (as such term is at the time defined in Section 409A) from the Company; or (ii) the date of your death following such separation from service; provided, however, that such deferral shall only be effected to the extent required to avoid accelerated taxation and/or tax penalties under Section 409A in the absence of such deferral. Upon the expiration of the applicable deferral period, any payments which would have otherwise been made during that period (whether in a single sum or in installments) in the absence of this paragraph shall be paid to you or your beneficiary in one lump sum (without interest). To the extent required to avoid accelerated taxation and/or tax penalties under Section 409A, amounts reimbursable to you under or as provided in this letter shall be paid to you on or before the last day of the year following the year in which the expense was incurred and the amount of expenses eligible for reimbursement (and in-kind benefits provided to you) during one year may not affect amounts reimbursable or provided in any subsequent year. It is further intended that payments hereunder satisfy, to the greatest extent possible, the exemption from the application of Section 409A (and any state law of similar effect) provided under Treasury Regulation Section 1.409A-1(b)(4) (as a "short-term deferral"). Whenever this letter specifies a payment period with reference to a number of days (e.g., "payment shall be made within thirty (30) days following the date of termination"), the actual date of payment within the specified period shall be within the sole discretion of the Company. The Company makes no representation that any or all of the payments described or referenced in this letter will be exempt from or comply with Section 409A and makes no undertaking to preclude Section 409A from applying to any such payment. You understand and agree that you shall be solely responsible for the payment of any taxes, penalties interest or other expenses incurred by you on account of non-compliance with Section 409A.
-



If the terms and the conditions of this letter are acceptable to you, please sign, date and return an original of this letter to us.

We look forward to a long and mutually beneficial relationship.

Sincerely,

IPSIDY INC.

By: /s/ Stuart Stoller
Stuart P. Stoller, CFO

AGREED & ACCEPTED:

/s/ Philip Broenniman
PHILIP R. BROENNIMAN

Dated: December 31, 2020

EXHIBIT A

IPSIDY INC.
AMENDED & RESTATED NONSTATUTORY STOCK OPTION AGREEMENT

THIS NONSTATUTORY STOCK OPTION AGREEMENT (“**Agreement**”) is made and entered into as of the date set forth in Section 1(a) below, by and between Ipsidy Inc., a Delaware corporation (the “**Company**”), and the following individual (“**Optionee**”) and is hereby amended and restated as set forth herein as of _____, 2020:

In consideration of the covenants herein set forth, the parties hereto agree as follows:

1. Option Information.

- | | | |
|-----|-------------------|----------------------|
| (a) | Date of Option: | May 22, 2020 |
| (b) | Optionee: | Philip R. Broenniman |
| (c) | Number of Shares: | 16,666,666 |
| (d) | Exercise Price: | \$0.07 |
| (e) | Expiration Date: | May 22, 2025 |

2. Acknowledgements.

(a) Optionee is a Director and President and Chief Operating Officer of the Company.

(b) Optionee is a party to that certain employment letter effective May 22, 2020 governing the terms of his employment with the Company (“**Employment Letter**”).

(c) The Board of Directors (the “**Board**” which term shall include an authorized committee of the Board of Directors) and shareholders of the Company have heretofore adopted a 2017 Incentive Stock Plan (the “**Plan**”), pursuant to which this Option is being granted; and

(d) The Board has authorized the granting to Optionee of a nonstatutory stock option (“**Option**”) to purchase shares of common stock of the Company (“**Stock**”) upon the terms and conditions hereinafter stated and pursuant to an exemption from registration under the Securities Act of 1933, as amended (the “**Securities Act**”) provided by Section 4(2) thereunder.

3. Shares; Price. Company hereby grants to Optionee the right to purchase, upon and subject to the terms and conditions herein stated, the number of shares of Stock set forth in Section 1(c) above (the “**Shares**”) for cash (or other consideration as is authorized under the Plan and acceptable to the Board of Directors of the Company, in their sole and absolute discretion) at the price per Share set forth in Section 1(d) above (the “**Exercise Price**”), such price being not less than the fair market value per share of the Shares covered by this Option as of the date hereof.

4. Term of Option; Continuation of Service. This Option shall expire, and all rights hereunder to purchase the Shares shall terminate, five (5) years from the date hereof, as set forth in Section 1(e) above (“**Expiration Date**”). This Option shall earlier terminate subject to Sections 7 and 8 hereof upon, and as of the date of, the termination of Optionee’s office or employment if such termination occurs prior to the Expiration Date. Nothing contained herein shall confer upon Optionee the right to the continuation of his or her office or employment with the Company or to interfere with the right of the Company to terminate such office or employment or to increase or decrease the compensation of Optionee from the rate in existence at the date hereof.

5. Vesting of Option. Subject to the provisions of Sections 7 and 8 hereof, this Option shall become exercisable and the Shares shall vest during the term of Optionee's office or employment as follows:

- (a) 3,333,333 of the Shares shall vest and become exercisable on the date of this grant; and
- (b) 5,333,333 of the Shares shall vest and become exercisable upon satisfaction of the first to occur of the following conditions:
 - (i) A minimum annualized revenue run-rate of the Company and its subsidiaries on a consolidated basis of \$10,000,000, based on the revenue for any quarterly period, excluding non-recurring one-time payments (as defined below), determined in accordance with United States Generally Accepted Accounting Principles ("GAAP") as shown in any of the Company's Annual Reports on Form 10-K, or Quarterly Reports on Form 10-Q filed with the SEC (collectively "SEC Filings") after the date hereof.
 - (ii) A Change of Control of the Company, or a strategic investment of at least \$5,000,000, each at a valuation of the Company which equates to a Market Capitalization (as defined below) of the Company of not less than \$100,000,000
 - (iii) The Company's shares of Stock achieving a closing price on the principal market or exchange on which such shares are traded, which gives rise to a Market Capitalization of the Company of not less than \$100,000,000 for 20 consecutive trading days.
- (c) 8,000,000 of the Shares shall vest and become exercisable upon satisfaction of the first to occur of the following conditions:
 - (i) A minimum annualized revenue run-rate of the Company and its subsidiaries on a consolidated basis of \$25,000,000, based on the revenue for any quarterly period, excluding non-recurring one-time payments, determined in accordance with GAAP as shown in any of the Company's SEC Filings after the date hereof.
 - (ii) A Change of Control of the Company, or a strategic investment of at least \$15,000,000, each at a valuation of the Company which equates to a Market Capitalization of the Company of not less than \$200,000,000.
 - (iii) The Company's shares of Stock achieving a closing price on the principal market or exchange on which such shares are traded, which gives rise to a Market Capitalization of the Company of not less than \$200,000,000 for 20 consecutive trading days.
- (d) If in the event of a Change of Control (i) it is not possible as of the date of closing of such Change of Control to determine the valuation of the Company for the purposes of Sections 5(b)(ii) or 5(c)(ii) above, whether due to some element of the consideration being deferred, or payable subject to a contingency or conditions, or being non-cash consideration which cannot be valued at such date; and (ii) provided that in the event that the maximum value (if any) agreed to by the parties to the transaction of the gross consideration receivable under the Change of Control transaction is not less than the amounts set forth in Sections 5(b)(ii) or 5(c)(ii) above respectively, then the relevant unvested Shares shall respectively vest and become exercisable upon such Change of Control, as if the maximum value had been achieved.¹

¹ By way of example under Section 5(d)(ii) if the acquiror sets a maximum value of all consideration of say, \$50 million then no shares shall vest. If the maximum value is say \$150 million but it is not possible to determine the value at closing of the Change of Control, then all Option shares under Section 5(b) shall vest upon closing. If the maximum value is say \$250 million, or there is no maximum but it is not possible to determine the value at closing of the Change of Control, then all Option shares under Sections 5(b) & 5(c) shall vest upon closing.

- (e) If Optionee's office and employment by the Company are terminated in the following circumstances:
 - (i) Termination by the Company other than for Cause (as defined in the Employment Letter) after the end of the relevant quarter which would satisfy the conditions set forth in Section 5(b)(i), or 5(c)(i) above, but before the publication of the relevant SEC Filings; or
 - (ii) The occurrence of a Termination upon Change of Control as defined in Section 1(e) of the Employment Letter, prior to the occurrence of a Change of Control which would satisfy the conditions set forth in Sections 5(b)(ii), or 5(c)(ii), or 5(d) above but subject to the closing of such Change of Control; or
 - (iii) Termination by the Company other than for Cause during the period commencing 10 consecutive trading days and ending before the 20th consecutive trading day referenced in Sections 5(b)(iii) or 5(c)(iii) above

Such that in each of the above-referenced cases Optionee's Shares would not vest solely as a result of such termination, then such number of Shares shall vest as is set forth in the relevant sub-section of Section 5(b) or (c) or (d) as would have vested upon satisfaction of the applicable condition but for such termination by the Company.

- (f) **"Change of Control"** shall mean (i) the Company is party to a merger or consolidation or sale of stock or a series of related transactions, which results in the voting securities of the Company outstanding immediately prior thereto failing to continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), directly or indirectly, at least fifty (50%) percent of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation; OR (ii) the sale or disposition of all or substantially all of the Company's assets, or consummation of any transaction, or series of related transactions, having similar effect (other than to a subsidiary of the Company); except if any of these events set forth in (i) or (ii) occurs in circumstances of the liquidation of the Company pursuant to a bankruptcy or other insolvency proceeding.
- (g) **"Market Capitalization"** shall mean the amount which results from the following calculations or determinations:
 - (i) In the case of the closing price condition, the product of: (x) the closing price of the shares of Stock on the principal market or exchange on which the Company's shares are traded on the relevant date multiplied by (y) the number of issued and outstanding shares of Stock on the relevant date.
 - a. In the case of the Change of Control condition the implied value of the Company based on the gross proceeds of the Change of Control transaction, comprising the aggregate of the cash amount and the market value of any publicly traded securities and the fair value agreed by the parties to the transaction of any non-traded, non-cash consideration, including any debt, equity or other property comprising any part of the gross consideration received or receivable by the Company and/or its Shareholders upon the consummation of any Change of Control transaction;

- b. In the case of the strategic investment transaction condition, the product of: (x) the purchase price of the shares of Stock or other securities which are issued to the investor(s) on an “as converted to common stock” per share basis multiplied by (y) the number of issued and outstanding shares of common Stock on the closing date, immediately prior to the closing of the investment and excluding any securities or shares issuable pursuant to the strategic investment transaction.
- (h) “**Non-recurring one-time payments**” shall mean any revenue or accounts receivable derived from (i) sales of inventory, goods, equipment, or other assets of the Group not in the ordinary course of business, (ii) transaction revenue not received in the ordinary course of business, (iii) sales of services not in the ordinary course of business, or (iv) revenue received due to one-time, non-recurring transactions. *By way of example, if in a particular quarter the Company has \$3,000,000 of revenue but \$1,000,000 results from the sale of a subsidiary, or its assets, then for the purposes of the revenue condition the Company shall be deemed to have had revenue of \$2,000,000 in that quarter and an annualized revenue run rate of \$8,000,000.*

The installments shall be cumulative (i.e., this option may be exercised, as to any or all Shares covered by an installment, at any time or times after an installment becomes exercisable and until expiration or termination of this Option).

6. Exercise.

(a) Standard Exercise. This Option shall be exercised by delivery to the Company of (i) written notice of exercise stating the number of Shares being purchased (in whole shares only) and such other information set forth on the form of Notice of Exercise attached hereto as Appendix A, (ii) a check or cash in the amount of the Exercise Price of the Shares covered by the notice (or such other consideration as has been approved by the Board of Directors consistent with the Plan) and (iii) a written investment representation as provided for in Section 13 hereof. This Option shall not be assignable or transferable, except by will or by the laws of descent and distribution, and shall be exercisable only by Optionee during his or her lifetime, except as provided in Section 8 hereof.

(b) Cashless Exercise. Notwithstanding anything to the contrary contained in this Option, this Option may be exercised by presentation and surrender of this Option to the Company at its principal executive offices with a written notice of the holder’s intention to effect a cashless exercise, and such other information set forth on the form of Notice of Exercise attached hereto as Appendix A, including a calculation of the number of shares of Common Stock to be issued upon such exercise in accordance with the terms hereof (a “**Cashless Exercise**”). In the event of a Cashless Exercise, in lieu of paying the Exercise Price in cash, the holder shall surrender this Option for that number of shares of Common Stock determined by multiplying the number of Shares to which it would otherwise be entitled by a fraction, the numerator of which shall be the difference between the then current Market Price per share of the Common Stock and the Exercise Price, and the denominator of which shall be the then current Market Price per share of Common Stock. Market Price is defined as the average of the last reported sale prices on the principal trading market for the Common Stock during the five (5) trading days immediately preceding such exercise date.

7. Termination of Appointment. If Optionee shall cease to be a director, employee or contractor of the Company for any reason, whether voluntarily or involuntarily, other than by his or her death, Optionee (or if the Optionee shall die after such termination, but prior to such exercise date, Optionee's personal representative or the person entitled to succeed to the Option) shall have the right at any time within three (3) months following such termination of office or the remaining term of this Option, whichever is the lesser, to exercise in whole or in part this Option to the extent, but only to the extent, that this Option was exercisable as of the date of termination of office and had not previously been exercised; provided, however: (i) if Optionee is Disabled (as defined in the Employment Letter) at the time of termination, the foregoing three (3) month period shall be extended to six (6) months; or (ii) if Optionee is terminated for Cause this Option shall automatically terminate as to all Shares covered by this Option not exercised prior to termination. Unless earlier terminated, all rights under this Option shall terminate in any event on the Expiration Date.

8. Death of Optionee. If the Optionee shall die while holding office of the Company, Optionee's personal representative or the person entitled to Optionee's rights hereunder may at any time within six (6) months after the date of Optionee's death, or during the remaining term of this Option, whichever is the lesser, exercise this Option and purchase Shares to the extent, but only to the extent, that Optionee could have exercised this Option as of the date of Optionee's death; provided, in any case, that this Option may be so exercised only to the extent that this Option has not previously been exercised by Optionee.

9. No Rights as Shareholder. Optionee shall have no rights as a shareholder with respect to the Shares covered by any installment of this Option until the effective date of issuance of the Shares following exercise of this Option, and no adjustment will be made for dividends or other rights for which the record date is prior to the date such stock certificate or certificates are issued except as provided in Section 10 hereof.

10. Recapitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by this Option, and the Exercise Price thereof, shall be proportionately adjusted for any increase or decrease in the number of issued shares resulting from a subdivision or consolidation of shares or the payment of a stock dividend, or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company; provided however that the conversion of any convertible securities of the Company shall not be deemed having been "effected without receipt of consideration by the Company".

11. Reorganization. The grant of this Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes in its capital or business structure or to merge, consolidate, dissolve or liquidate or to sell or transfer all or any part of its business or assets. The provisions of the Plan shall govern the rights of the Optionee in the event of a Reorganization as defined in the Plan.

12. Taxation upon Exercise of Option. Optionee understands that, upon exercise of this Option, Optionee will recognize income for Federal and state income tax purposes in an amount equal to the amount by which the fair market value of the Shares, determined as of the date of exercise, exceeds the Exercise Price. The acceptance of the Shares by Optionee shall constitute an agreement by Optionee to report such income in accordance with then applicable law and to cooperate with Company in establishing the amount of such income and corresponding deduction to the Company for its income tax purposes. Withholding for federal or state income and employment tax purposes will be made, if and as required by law, from Optionee's then current compensation, or, if such current compensation is insufficient to satisfy withholding tax liability, the Company may require Optionee to make a cash payment to cover such liability as a condition of the exercise of this Option.

13. Modification, Extension and Renewal of Options. The Board or Committee, as described in the Plan, may modify, extend or renew this Option or accept the surrender thereof (to the extent not theretofore exercised) and authorize the granting of a new option in substitution therefor (to the extent not theretofore exercised), subject at all times to the Plan, the Code and all relevant securities statutes and rules. Notwithstanding the foregoing provisions of this Section 13, no modification shall, without the consent of the Optionee, alter to the Optionee's detriment or impair any rights of Optionee hereunder.

14. Investment Intent; Restrictions on Transfer.

(a) Optionee represents and agrees that if Optionee exercises this Option in whole or in part, Optionee will in each case acquire the Shares upon such exercise for the purpose of investment and not with a view to, or for resale in connection with, any distribution thereof; and that upon such exercise of this Option in whole or in part, Optionee (or any person or persons entitled to exercise this Option under the provisions of Sections 7 and 8 hereof) shall furnish to the Company a written statement to such effect, satisfactory to the Company in form and substance. If the Shares represented by this Option are registered under the Securities Act, either before or after the exercise of this Option in whole or in part, the Optionee shall be relieved of the foregoing investment representation and agreement and shall not be required to furnish the Company with the foregoing written statement.

(b) Optionee further represents that Optionee has had access to the published financial statements and other information of the Company, has had the opportunity to ask questions of the Company concerning its business, operations and financial condition, and to obtain additional information reasonably necessary to verify the accuracy of such information.

(c) Unless and until the Shares represented by this Option are registered under the Securities Act, all certificates representing the Shares and any certificates subsequently issued in substitution therefor and any certificate for any securities issued pursuant to any stock split, share reclassification, stock dividend or other similar capital event shall bear legends in substantially the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED OR OTHERWISE QUALIFIED UNDER THE SECURITIES ACT OF 1933 (THE 'SECURITIES ACT') OR UNDER THE APPLICABLE OR SECURITIES LAWS OF ANY STATE. NEITHER THESE SECURITIES NOR ANY INTEREST THEREIN MAY BE SOLD, TRANSFERRED, PLEDGED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF REGISTRATION UNDER THE SECURITIES ACT OR ANY APPLICABLE SECURITIES LAWS OF ANY STATE, UNLESS PURSUANT TO EXEMPTIONS THEREFROM.

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED PURSUANT TO THAT CERTAIN NONSTATUTORY STOCK OPTION AGREEMENT DATED _____ BETWEEN THE COMPANY AND THE ISSUEE WHICH RESTRICTS THE TRANSFER OF THESE SHARES WHICH ARE SUBJECT TO REPURCHASE BY THE COMPANY UNDER CERTAIN CONDITIONS.

and/or such other legend or legends as the Company and its counsel deem necessary or appropriate. Appropriate stop transfer instructions with respect to the Shares have been placed with the Company's transfer agent.

15. Stand-off Agreement. Optionee agrees that, in connection with any registration of the Company's securities under the Securities Act, and upon the request of the Company or any underwriter managing an underwritten offering of the Company's securities, Optionee shall not sell, short any sale of, loan, grant an option for, or otherwise dispose of any of the Shares (other than Shares included in the offering) without the prior written consent of the Company or such managing underwriter, as applicable, for a period of at least six months following the effective date of registration of such offering.

16. Notices. Any notice required to be given pursuant to this Option or the Plan shall be in writing and shall be deemed to be delivered upon receipt or, in the case of notices by the Company, five (5) days after deposit in the U.S. mail, postage prepaid, addressed to Optionee at the address last provided by Optionee for his or her employee/officer records.

17. Agreement Subject to Plan; Applicable Law. This Option is made pursuant to the Plan and shall be interpreted to comply therewith. A copy of such Plan is available to Optionee, at no charge, at the principal office of the Company. Any provision of this Option inconsistent with the Plan shall be considered void and replaced with the applicable provision of the Plan. This Option has been granted, executed and delivered in the State of Delaware, and the interpretation and enforcement shall be governed by the laws thereof and subject to the exclusive jurisdiction of the courts therein.

IN WITNESS WHEREOF, the parties hereto have executed this Option as of the date first above written.

COMPANY:

IPSIDY INC.,
a Delaware corporation

By: /s/ Stuart Stoller
Name: Stuart Stoller
Title: Chief Financial Officer

OPTIONEE:

By: /s/ Philip Broenniman
(signature)
Name: PHILIP R. BROENNIMAN

Appendix A

NOTICE OF EXERCISE

Ipsidy Inc.

Re: Nonstatutory Stock Option

Notice is hereby given pursuant to Section 6 of my Nonstatutory Stock Option Agreement that I elect to purchase the number of shares set forth below at the exercise price set forth in my option agreement:

Nonstatutory Stock Option Agreement dated: _____

Number of shares being purchased: _____

Exercise Price: \$ _____

EITHER

1) A check in the amount of the aggregate price of the shares being purchased is attached.

OR

2) I elect a cashless exercise pursuant to Section 6 of my Stock Option Agreement. The Market Price* as of _____ was \$ _____ resulting in the issuance of _____ shares of common stock on a cashless exercise basis.

* Market Price is defined as the average of the last reported sale prices on the principal trading market for the Common Stock during the five (5) trading days immediately preceding such exercise date.

Further, I understand that the exercise of the Options will give rise to taxable income at the time of exercise, which will be payable in addition to the Exercise Price under the Option, whether by deduction from my compensation, or by my additional payment to the Company.

I hereby confirm that such shares are being acquired by me for my own account for investment purposes, and not with a view to, or for resale in connection with, any distribution thereof. I will not sell or dispose of my Shares in violation of the Securities Act of 1933, as amended, or any applicable federal or state securities laws.

I understand that the certificate representing the Option Shares will bear a restrictive legend within the contemplation of the Securities Act and as required by such other state or federal law or regulation applicable to the issuance or delivery of the Option Shares.

I agree to provide to the Company such additional documents or information as may be required pursuant to the Company's 2017 Incentive Stock Plan.

By: _____

Dated: _____

EXHIBIT B

Permitted Activities

Organization	Role
Varana Capital LLC and affiliated investment funds and entities of which it is the Investment Manager	Managing Partner & Member

EXHIBIT C

EMPLOYEE INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT

THIS EMPLOYEE INVENTION ASSIGNMENT AND CONFIDENTIALITY AGREEMENT is entered into as of the 22nd day of May, 2020 between the undersigned **PHILIP R. BROENNIMAN** residing at 2130 Hermosa Drive Boulder, Colorado 80304, and **IPSIDY INC.**, a Delaware corporation with a place of business at 670 Long Beach Boulevard, Long Beach, New York 11561 USA, (the “**Company**”).

WHEREAS, I have agreed to be an employee of the Company or one of its affiliated entities (collectively referred to herein as the “**Company**”).

IN CONSIDERATION OF, and as a condition of my employment with the Company (the receipt and sufficiency of which I hereby acknowledge) I hereby represent to, and agree with the Company as follows:

1. Purpose of Agreement. I understand that it is critical for the Company to preserve and protect its rights in “**Inventions**” (as defined in Section 2 below), its “**Confidential Information**” (as defined in Section 7 below) and in all related intellectual property rights. Accordingly, I am entering into this Employee Invention Assignment and Confidentiality Agreement (this “**Agreement**”) as a condition of my employment with the Company.

2. Disclosure of Inventions. I will promptly disclose in confidence to the Company all inventions, improvements, designs, original works of authorship, formulas, processes, compositions of matter, computer software programs, databases, mask works and trade secrets (the “**Inventions**”) that I make or conceive or first reduce to practice or create, either alone or jointly with others, during the period and in the course of my employment, whether or not such Inventions are patentable, copyrightable or protectable as trade secrets.

3. Work for Hire. I acknowledge and agree that any copyrightable works prepared by me within the scope of my employment, excluding any such works prepared prior to the date hereof, are “works made for hire” under the Copyright Law of the United States and that the Company will be considered the author and owner of such copyrightable works.

4. Assignment of Inventions. I agree that all Inventions that (i) have been or are developed using equipment, supplies, facilities, Confidential Information, or trade secrets of the Company, (ii) result from work performed by me for the Company, or (iii) relate to the Company’s business or current research and development (the “**Assigned Inventions**”), will be the sole and exclusive property of the Company and are hereby irrevocably assigned by me to the Company.

5. Assignment of Other Rights; Moral Rights. In addition to the foregoing assignment of Assigned Inventions to the Company, I hereby irrevocably transfer and assign to the Company: (i) all worldwide patents, patent applications, copyrights, mask works, trade secrets and other intellectual property rights, including but not limited to rights in databases, in any Assigned Inventions, along with any registrations of or applications to register such rights; and (ii) any and all “Moral Rights” (as defined below) that I may have in or with respect to any Assigned Inventions. I also hereby forever waive and agree never to assert any and all Moral Rights I may have in or with respect to any Assigned Inventions, even after termination of my work on behalf of the Company. “**Moral Rights**” mean any rights to claim authorship of or credit on an Assigned Invention, to object to or prevent the modification or destruction of any Assigned Inventions, or to withdraw from circulation or control the publication or distribution of any Assigned Inventions, and any similar right, existing under judicial or statutory law of any country or subdivision thereof in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a “moral right.”

6. Assistance. I agree to reasonably assist the Company, at the Company's cost, to obtain for the Company patents, copyrights, mask work rights, trade secret rights and other legal protections for the Company's Assigned Inventions in any and all countries. I will execute any documents that the Company may reasonably request for use in obtaining or enforcing such patents, copyrights, mask work rights, trade secrets and other legal protections. My obligations under this paragraph will continue beyond the termination of my employment with the Company, provided that the Company will compensate me at a reasonable rate after such termination for time or expenses actually spent by me at the Company's request on such assistance. I appoint the Secretary of the Company as my attorney-in-fact to execute documents on my behalf for this purpose.

7. Confidential Information. I understand that my employment by the Company creates a relationship of confidence and trust with respect to any information that may be disclosed to me by the Company and its officers, employees, shareholders or agents, whether orally, in writing, by computer or other medium, by demonstration, by supply of samples and parts or in any other manner, or which is otherwise accessible to me, that relates to the business of the Company or to the business of any parent, subsidiary, affiliate, customer or supplier of the Company including all information received by the Company from third parties, which is subject to an obligation of confidentiality (the "**Confidential Information**"). Such Confidential Information includes, but is not limited to, Assigned Inventions, computer programming and software, Company products and services, systems, functionality, designs, hardware, parts, concepts, specifications, features, techniques, plans, marketing, sales, performance, cost, pricing, supplier and customer information, data, tables, schedules, contracts and other information concerning the Company and its customers. I hereby acknowledge that all such Confidential Information belongs to the Company (or the respective customer, supplier or third party, which supplied it to the Company.)

8. Confidentiality. At all times during my employment and for two years after its termination, I will keep and hold all such Confidential Information in strict confidence and trust. I will not use or disclose any Confidential Information without the prior written consent of the Company, except as may be necessary to perform my duties as an employee of the Company for the benefit of the Company, and except to my advisors who need to have such information in order to advise me. I will be responsible for any breach of this Agreement by any of my advisors to whom I provide Confidential Information as if such advisors were a party hereto. Upon termination of my employment with the Company, I will promptly deliver to the Company all documents and materials of any nature pertaining to my work with the Company and I will not take with me or retain any documents or materials or copies thereof containing any Confidential Information, in each case other than my tax returns and documents related to my stock options and investments in the Company. I agree that I shall at all times comply with the Company's Information Security Policy and Procedures from time to time in force. **I acknowledge that breach of this policy or any other provision of this Agreement may be grounds for immediate dismissal.**

9. No Breach of Agreement or Infringement. I represent that my acceptance of the Company's offer of employment, performance of all the terms of this Agreement and my duties as an employee of the Company will not so far as I am aware breach any invention assignment, proprietary information, confidentiality or similar agreement with any other party, nor infringe the rights of any third party. I represent that I will not bring with me to the Company or use in the performance of my duties for the Company any documents or materials or intangibles of a former employer or third party that are not generally available to the public or have not been legally transferred to the Company. I acknowledge that the Company is relying upon my warranty, representation and acknowledgement in this paragraph in offering me employment.

10. Notification. I hereby authorize the Company to notify my future employers of the terms of this Agreement and my responsibilities hereunder.

11. Injunctive Relief. I understand that in the event of a breach or threatened breach of this Agreement by me the Company may suffer irreparable harm and will therefore be entitled to seek injunctive relief to enforce this Agreement.

12. Governing Law; Jurisdiction. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without giving effect to that body of laws pertaining to conflict of laws. I hereby submit to the jurisdiction of and consent to suit in the courts, Federal and State located in the State of New York with respect to any matter or dispute arising out of this Agreement.

13. Severability. If any provision of this Agreement is determined by any court or arbitrator of competent jurisdiction to be invalid, illegal or unenforceable in any respect, such provision will be enforced to the maximum extent possible given the intent of the parties hereto. If such clause or provision cannot be so enforced, such provision shall be stricken from this Agreement and the remainder of this Agreement shall be enforced as if such invalid, illegal or unenforceable clause or provision had (to the extent not enforceable) never been contained in this Agreement.

14. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered will be deemed an original, and all of which together shall constitute one and the same agreement.

15. Entire Agreement. This Agreement and the documents referred to herein constitute the entire agreement and understanding of the parties with respect to the subject matter of this Agreement, and supersede all prior understandings and agreements, whether oral or written, between or among the parties hereto with respect to the specific subject matter hereof.

16. Amendment and Waivers. This Agreement may be amended only by a written agreement executed by each of the parties hereto. No amendment of or waiver of, or modification of any obligation under this Agreement will be enforceable unless set forth in a writing signed by the party against which enforcement is sought. Any amendment effected in accordance with this section will be binding upon all parties hereto and each of their respective successors and assigns. No delay or failure to require performance of any provision of this Agreement shall constitute a waiver of that provision as to that or any other instance. No waiver granted under this Agreement as to any one provision herein shall constitute a subsequent waiver of such provision or of any other provision herein, nor shall it constitute the waiver of any performance other than the actual performance specifically waived.

17. Successors and Assigns; Assignment. Except as otherwise provided in this Agreement, this Agreement, and the rights and obligations of the parties hereunder, will be binding upon and inure to the benefit of their respective successors, assigns, heirs, executors, administrators and legal representatives. The Company may assign any of its rights and obligations under this Agreement to any entity which is my employer. No other party to this Agreement may assign, whether voluntarily or by operation of law, any of its rights and obligations under this Agreement, except with the prior written consent of the Company.

18. Further Assurances. The parties agree to execute such further documents and instruments and to take such further actions as may be reasonably necessary to carry out the purposes and intent of this Agreement.

SIGNED AS OF THIS 31ST DAY OF DECEMBER 2020

PHILIP R. BROENNIMAN

/s/ Philip Broenniman

EXHIBIT D

RELEASE OF CLAIMS

This General Release of all Claims (this "Release") is entered into on [●], by and between Ipsidy Inc., a Delaware corporation (the "Company"), and PHILIP R. BROENNIMAN (the "Executive").

In accordance with Section 1(d) of the Employment Offer letter by and between the Company and the Executive, effective May 22, 2020 (the "Employment Letter"), in consideration of the payments and benefits to which the Executive is entitled pursuant to Section 1(b) of the Employment Letter subject to the execution and non-revocation of this Release, the Executive agrees as follows:

- General Release and Waiver of Claims.
 - o *Release.* The Executive and each of the Executive's respective heirs, executors, administrators, representatives, agents, successors and assigns (collectively, the "Releasors") hereby irrevocably and unconditionally release and forever discharge the Company and each of its subsidiaries and affiliates and each of their respective officers, employees, directors, managers, shareholders and agents ("Releasees") from any and all claims, actions, causes of action, rights, judgments, obligations, damages, demands, accountings or liabilities of whatever kind or character (collectively, "Claims"), including, without limitation, any Claims under any federal, state, local or foreign law, that the Releasors may have or in the future may possess, arising out (i) of the Executive's employment relationship with and service as an employee, officer, manager or director of the Company, and the termination of such relationship or service and (ii) any event, condition, circumstance or obligation that occurred, existed or arose on or prior to the date hereof; *provided, however,* that notwithstanding anything else herein to the contrary, this Release shall not affect: the obligations of the Company to pay the amounts set forth under the heading "Compensation" in the Employment Letter (including any Deferred Pay) due and owing to Executive on the Termination Date or other obligations that, in each case, by their terms, are to be performed after the date hereof by the Company; any indemnification or similar rights the Executive has as a current or former officer, manager or director of the Company, including, without limitation, any and all rights thereto referenced in the Company's governance documents or any rights with respect to "directors' and officers'" insurance policies; and the Executive's right to reimbursement of business expenses.
 - o *Specific Release of ADEA Claims.* The Releasors hereby unconditionally release and forever discharge the Releasees from any and all Claims that the Releasors may have as of the date the Executive signs this Release arising under the Federal Age Discrimination in Employment Act of 1967, as amended, and the applicable rules and regulations promulgated thereunder ("ADEA"). By signing this Release, the Executive hereby acknowledges and confirms the following: (i) the Executive was advised by the Company in connection with his termination to consult with an attorney of his choice prior to signing this Release and to have such attorney explain to the Executive the terms of this Release, including, without limitation, the terms relating to the Executive's release of claims arising under ADEA, and the Executive has in fact consulted with an attorney; (ii) the Executive was given a period of not fewer than twenty-one (21) calendar days to consider the terms of this Release and to consult with an attorney of his choosing with respect thereto; and (iii) the Executive knowingly and voluntarily accepts the terms of this Release. The Executive also understands that he has seven (7) calendar days following the date on which he signs this Release within which to revoke the release contained in this paragraph, by providing the Company a written notice of his revocation of the release and waiver contained in this paragraph.

- o *Release of All Claims.* The Executive acknowledges, understands and agrees that he may later discover Claims or facts in addition to or different from those which he now knows or believes to be true with respect to the subject matters of this Release, but that it is nevertheless his intention by signing this Release to fully, finally and forever release any and all Claims whether now known or unknown, suspected or unsuspected, which now exist, may exist, or previously have existed as set forth herein.
- o *No Assignment.* The Executive represents and warrants that he has not assigned any of the Claims being released under this Release.
- Proceedings. The Executive has not filed, and agrees not to initiate or cause to be initiated on his behalf, any complaint, charge, claim or proceeding against the Releasees before any local, state or federal agency, court or other body, other than in respect of any matter described in the proviso to Section 1(a) of this Release (each, individually, a “Proceeding”), and agrees not to participate voluntarily in any Proceeding. The Executive waives any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any Proceeding.
- Remedies. The Executive understands that by entering into this Release he will be limiting the availability of certain remedies that he may have against the Company and limiting also his ability to pursue certain claims against the Company.
- Severability Clause. In the event any provision or part of this Release is found to be invalid or unenforceable, only that particular provision or part so found, and not the entire Release, will be inoperative.
- Non-admission. Nothing contained in this Release will be deemed or construed as an admission of wrongdoing or liability on the part of the Company.
- Governing Law. All matters affecting this Release, including the validity thereof, are to be governed by, and interpreted and construed in accordance with, the laws of the State of Missouri applicable to contracts executed in and to be performed in that State.
- Capitalized Terms. Capitalized terms used but not defined herein have the meanings ascribed to them in the Employment Letter.

THE EXECUTIVE ACKNOWLEDGES THAT HE HAS READ THIS RELEASE AND THAT HE FULLY KNOWS, UNDERSTANDS AND APPRECIATES ITS CONTENTS, AND THAT HE HEREBY EXECUTES THE SAME AND MAKES THIS AGREEMENT AND THE RELEASE AND AGREEMENTS PROVIDED FOR HEREIN VOLUNTARILY AND OF HIS OWN FREE WILL.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the Executive has executed this Release on the date first set forth below.

EXECUTIVE:

PHILIP R. BROENNIMAN

ACKNOWLEDGED AND AGREED

IPSIDY INC.

By: _____
Its: _____

[Signature Page to Release of Claims]

**CERTIFICATION OF PRINCIPAL EXECUTIVE
OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Phillip Kumnick, Chief Executive Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Ipsidy Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant) and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal annual period that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 8, 2021

/s/ Phillip Kumnick

Phillip Kumnick
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE
OFFICER PURSUANT TO SECTION 302 OF THE
SARBANES-OXLEY ACT OF 2002**

I, Stuart Stoller, Chief Financial Officer, certify that:

1. I have reviewed this annual report on Form 10-K of Ipsidy Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15 (f)) for the registrant) and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal annual period that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 8, 2021

/s/ Stuart Stoller

Stuart Stoller

Chief Financial Officer

(Principal Financial and Accounting Officer)

**CERTIFICATION
PURSUANT TO 18 U.S.C.
SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual report of Ipsidy Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Phillip Kumnick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2021

/s/ Phillip Kumnick
Phillip Kumnick
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION
PURSUANT TO 18 U.S.C.
SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual report of Ipsidy Inc. (the "Company") on Form 10-K for the period ending December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stuart Stoller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities and Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 8, 2021

/s/ Stuart Stoller

Stuart Stoller

Chief Financial Officer

(Principal Financial and Accounting Officer)
