

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2020

OR

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)  
(Former 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) (zip code)

516-274-8700

(Registrant's telephone number, including area code)

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large Accelerated filer

Non-accelerated filer

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

Yes  No

Securities registered pursuant to Section 12(b) of the Act: Not applicable.

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

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 July 31, 2020
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Common Stock, par value \$0.0001

546,654,196 shares

Documents incorporated by reference:

None

## TABLE OF CONTENTS

	<u>Page No.</u>
<b><u>PART I - FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements.</u>	1 - 5
<u>Condensed Consolidated Balance Sheets as of June 30, 2020 (unaudited) and December 31, 2019</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	2
<u>Condensed Consolidated Statements of Comprehensive Loss for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Stockholders' Equity for the Three and Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2020 and 2019 (unaudited)</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6-22
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	22-27
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	27
<u>Item 4. Controls and Procedures.</u>	27
<b><u>PART II - OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings.</u>	28
<u>Item 1A. Risk Factors.</u>	28
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.</u>	28
<u>Item 3. Defaults Upon Senior Securities.</u>	28
<u>Item 4. Mine Safety Disclosures.</u>	28
<u>Item 5. Other Information.</u>	29
<u>Item 6. Exhibits.</u>	29-31

## CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report includes forward-looking statements that relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ materially from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Words such as, but not limited to, “believe,” “expect,” “anticipate,” “estimate,” “intend,” “plan,” “targets,” “likely,” “aim,” “will,” “would,” “could,” and similar expressions or phrases identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and future events and financial trends that we believe may affect our financial condition, results of operation, business strategy and financial needs.

You should read thoroughly this report and the documents that we refer to herein with the understanding that our actual future results may be materially different from and/or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements including those made in this report, in Part I. Item 1A. Risk Factors also appear in our Annual Report on Form 10-K for the year ended December 31, 2019 and our other filings with the Securities and Exchange Commission. Some examples of risk factors which may affect our business are as follows:

- our lack of significant revenues and history of losses,
- our ability to continue as a going concern,
- our ability to raise additional working capital as necessary,
- our ability to satisfy our obligations as they become due,
- the failure to successfully commercialize our product or sustain market acceptance,
- the reliance on third party agreements and relationships for development of our business,
- our operations in foreign markets,
- breaches of network or information technology services,
- the control exercised by our management,
- the impact of government regulation on our business,
- our ability to effectively compete,
- the possible inability to effectively protect our intellectual property,
- the lack of a public market for our securities and the impact of the penny stock rules on trading in our common stock should a public market ever be established, and
- the impact of the Covid-19 Pandemic.

Other sections of this report include additional factors which could adversely impact our business and financial performance. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Except for our ongoing obligations to disclose material information under the Federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. These forward-looking statements speak only as of the date of this report, and you should not rely on these statements without also considering the risks and uncertainties associated with these statements and our business.

## OTHER PERTINENT INFORMATION

Unless specifically set forth to the contrary, when used in this report the terms “Ipsidy,” the “Company,” “we,” “our,” “us,” and similar terms refer to Ipsidy Inc., a Delaware corporation and its subsidiaries.

The information which appears on our website [www.ipsidy.com](http://www.ipsidy.com) is not part of this report.

## PART I – FINANCIAL INFORMATION

**IPSIDY INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2020 (unaudited)	December 31, 2019
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash	\$ 814,950	\$ 567,081
Accounts receivable, net	158,635	125,859
Stock subscription receivable	965,033	-
Current portion of net investment in direct financing lease	68,909	65,333
Inventory, net	162,435	173,575
Other current assets	379,139	753,505
Total current assets	<u>2,549,101</u>	<u>1,685,353</u>
Property and equipment, net	113,815	161,820
Other assets	241,600	383,066
Intangible assets, net	5,272,041	5,593,612
Goodwill	4,183,232	5,218,861
Net investment in direct financing lease, net of current portion	459,331	494,703
Total assets	<u>\$ 12,819,120</u>	<u>\$ 13,537,415</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 2,655,107	\$ 2,215,912
Notes payable, current portion	5,635	5,341
Capital lease obligation, current portion	36,958	34,816
Deferred revenue	454,086	425,276
Total current liabilities	<u>3,151,786</u>	<u>2,681,345</u>
<b>Long-term liabilities:</b>		
Notes payable, net of discounts and current portion	490,392	1,970,937
Convertible debt, net of discounts	5,563,538	428,000
Capital lease obligation, net of current portion	30,764	49,794
Operating lease liabilities	92,503	131,568
Total liabilities	<u>9,328,983</u>	<u>5,261,644</u>
<b>Commitments and Contingencies (Note 12)</b>		
<b>Stockholders' Equity:</b>		
Common stock, \$0.0001 par value, 1,000,000,000 shares authorized; 546,654,196 and 518,125,454 shares issued and outstanding as of June 30, 2020 and December 31, 2019, respectively	54,665	51,812
Additional paid in capital	97,528,578	94,982,167
Accumulated deficit	(94,234,462)	(86,935,593)
Accumulated comprehensive income	141,356	177,385
Total stockholders' equity	<u>3,490,137</u>	<u>8,275,771</u>
Total liabilities and stockholders' equity	<u>\$ 12,819,120</u>	<u>\$ 13,537,415</u>

See notes to condensed consolidated financial statements.

**IPSIDY INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

	Three Months ended		Six Months Ended	
	June 30,		June 30,	
	2020	2019	2020	2019
<b>Revenues:</b>				
Products and services	\$ 306,692	\$ 628,905	\$ 1,085,630	\$ 1,352,846
Lease income	14,427	16,056	29,278	32,493
Total revenues, net	<u>321,119</u>	<u>644,961</u>	<u>1,114,908</u>	<u>1,385,339</u>
<b>Operating Expenses:</b>				
Cost of sales	61,798	189,261	417,521	365,724
General and administrative	2,389,794	2,007,038	3,872,916	4,147,869
Research and development	190,339	366,292	620,740	796,962
Impairment loss	163,822	-	1,035,629	-
Depreciation and amortization	321,987	166,908	647,331	327,696
Total operating expenses	<u>3,127,740</u>	<u>2,729,499</u>	<u>6,594,137</u>	<u>5,638,251</u>
Loss from operations	<u>(2,806,621)</u>	<u>(2,084,538)</u>	<u>(5,479,229)</u>	<u>(4,252,912)</u>
<b>Other Income (Expense):</b>				
Interest expense	(310,153)	(93,260)	(489,203)	(180,150)
Other (expense) income, net	(342,082)	6,271	(1,317,971)	12,497
Other expense, net	(652,235)	(86,989)	(1,807,174)	(167,653)
Loss before income taxes	<u>(3,458,856)</u>	<u>(2,171,527)</u>	<u>(7,286,403)</u>	<u>(4,420,565)</u>
Income tax expense	(3,592)	(4,264)	(12,466)	(17,965)
Net loss	<u>\$ (3,462,448)</u>	<u>\$ (2,175,791)</u>	<u>\$ (7,298,869)</u>	<u>\$ (4,438,530)</u>
Net loss per share - Basic and Diluted	<u>\$ (0.01)</u>	<u>\$ (0.00)</u>	<u>\$ (0.01)</u>	<u>\$ (0.01)</u>
Weighted Average Shares Outstanding - Basic and Diluted	<u>523,234,921</u>	<u>479,787,679</u>	<u>524,207,499</u>	<u>476,369,338</u>

See notes to condensed consolidated financial statements.

**IPSIDY INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net Loss	\$ (3,462,448)	\$ (2,175,791)	\$ (7,298,869)	\$ (4,438,530)
Foreign currency translation gain (loss)	80,235	(10,526)	(36,029)	13,702
Comprehensive loss	<u>\$ (3,382,213)</u>	<u>\$ (2,186,317)</u>	<u>\$ (7,334,898)</u>	<u>\$ (4,424,828)</u>

See notes to condensed consolidated financial statements.

**IPSIDY INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(Unaudited)**

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total
	Shares	Amount				
<b>Six Months Ended June 30, 2020</b>						
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	3,441,558	344	199,656	-	-	200,000
Warrant exercise	20,480,992	2,048	1,246,935	-	-	1,248,983
Modification of warrants issued with debt	-	-	95,223	-	-	95,223
Warrant exercise inducement	-	-	366,795	-	-	366,795
Stock-based compensation	4,500,000	450	629,543	-	-	629,993
Common stock issued for services	106,192	11	8,259	-	-	8,270
Net loss	-	-	-	(7,298,869)	-	(7,298,869)
Foreign currency translation	-	-	-	-	(36,029)	(36,029)
Balances, June 30, 2020	<u>546,654,196</u>	<u>\$ 54,665</u>	<u>\$ 97,528,578</u>	<u>\$ (94,234,462)</u>	<u>\$ 141,356</u>	<u>\$ 3,490,137</u>
<b>Three Months Ended June 30, 2020</b>						
Balances, March 31, 2020	522,731,646	\$ 52,273	\$ 95,254,309	\$ (90,772,014)	\$ 61,121	\$ 4,595,689
Sale of common stock for cash	3,441,558	344	199,656	-	-	200,000
Warrant exercise	20,480,992	2,048	1,246,935	-	-	1,248,983
Warrant exercise inducement	-	-	366,795	-	-	366,795
Stock-based compensation	-	-	460,883	-	-	460,883
Net loss	-	-	-	(3,462,448)	-	(3,462,448)
Foreign currency translation	-	-	-	-	80,235	80,235
Balances, June 30, 2020	<u>546,654,196</u>	<u>\$ 54,665</u>	<u>\$ 97,528,578</u>	<u>\$ (94,234,462)</u>	<u>\$ 141,356</u>	<u>\$ 3,490,137</u>
<b>Six Months Ended June 30, 2019</b>						
Balances, December 31, 2018	478,950,996	\$ 47,895	\$ 90,770,682	\$ (76,435,235)	\$ 207,754	\$ 14,591,096
Sale of common stock for cash	38,763,750	3,876	2,828,276	-	-	2,832,152
Common stock issued for services	410,708	41	41,071	-	-	41,112
Stock-based compensation	-	-	787,720	-	-	787,720
Net loss	-	-	-	(4,438,530)	-	(4,438,530)
Foreign currency translation	-	-	-	-	13,702	13,702
Balances, June 30, 2019	<u>518,125,454</u>	<u>\$ 51,812</u>	<u>\$ 94,427,749</u>	<u>\$ (80,873,765)</u>	<u>\$ 221,456</u>	<u>\$ 13,827,252</u>
<b>Three Months Ended June 30, 2019</b>						
Balances, March 31, 2019	478,950,996	\$ 47,895	\$ 91,186,061	\$ (78,697,974)	\$ 231,982	\$ 12,767,964
Sale of common stock for cash	38,763,750	3,876	2,828,276	-	-	2,832,152
Common stock issued for services	410,708	41	41,071	-	-	41,112
Stock-based compensation	-	-	372,341	-	-	372,341
Net loss	-	-	-	(2,175,791)	-	(2,175,791)
Foreign currency translation	-	-	-	-	(10,526)	(10,526)
Balances, June 30, 2019	<u>518,125,454</u>	<u>\$ 51,812</u>	<u>\$ 94,427,749</u>	<u>\$ (80,873,765)</u>	<u>\$ 221,456</u>	<u>\$ 13,827,252</u>

See notes to condensed consolidated financial statements.

**IPSIDY INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

	For the Six Months Ended	
	June 30,	
	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (7,298,869)	\$ (4,438,530)
Adjustments to reconcile net loss with cash used in operations:		
Depreciation and amortization expense	600,978	327,696
Stock-based compensation	629,993	787,720
Extinguishment of note payable	985,481	
Amortization of debt discount and debt issuance costs, net	214,668	54,882
Common stock issued for services	-	41,112
Warrant exercise inducement expense	366,795	-
Impairment loss/write-off of assets	1,059,495	-
Changes in operating assets and liabilities:		
Accounts receivable	(23,217)	(63,869)
Net investment in direct financing lease	31,796	28,581
Inventory	21,984	(60,818)
Other current assets	374,366	155,035
Accounts payable and accrued expenses	1,056,433	324,076
Deferred revenue	28,810	173,518
Net cash flows from operating activities	<u>(1,951,287)</u>	<u>(2,670,597)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(2,394)	(14,902)
Decrease in other assets	13,462	-
Investment in other assets including work in process	(124,870)	(940,068)
Net cash flows from investing activities	<u>(113,802)</u>	<u>(954,970)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of convertible note payable	1,510,000	-
Payment of debt issuance costs	(104,800)	-
Proceeds from sale of common stock offering, net of offering costs	200,000	2,832,152
Proceeds from the exercise of warrants	283,950	-
Proceeds from the payroll protection loan	485,760	-
Principal payments on capital lease obligations and notes payable	(19,487)	(14,987)
Net cash flows from financing activities	<u>2,355,423</u>	<u>2,817,165</u>
Effect of foreign currencies exchange on cash	(42,465)	20,291
Net change in Cash	247,869	(788,111)
Cash, Beginning of Period	567,081	4,972,331
Cash, End of Period	<u>\$ 814,950</u>	<u>\$ 4,184,220</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for interest	\$ 5,296	\$ 4,223
Cash paid for income taxes	<u>\$ 12,466</u>	<u>\$ 13,701</u>
<b>Non-cash Investing and Financing Activities:</b>		
Modification of warrants issued with convertible debt	\$ 95,223	\$ -
Exchange of notes payable and accrued interest for convertible notes payable	<u>\$ 2,662,000</u>	<u>\$ -</u>
Warrant exercise with a subscription receivable	<u>\$ 965,033</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 assets and liabilities	<u>\$ -</u>	<u>\$ 514,473</u>
Reclassification of software development to intangible costs	<u>\$ 252,875</u>	<u>\$ -</u>

See notes to condensed consolidated financial statements.



**IPSIDY INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 – BASIS OF PRESENTATION**

In the opinion of Management, the accompanying unaudited condensed consolidated financial statements are prepared in accordance with instructions for Form 10-Q, include all adjustments (consisting only of normal recurring accruals) which we considered as necessary for a fair presentation of the results for the periods presented. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. It is suggested that these condensed consolidated financial statements be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2019. The results of operations for the three and six months ended June 30, 2020 are not necessarily indicative of the results to be expected for future periods or the full year.

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

*Going Concern*

As of June 30, 2020, the Company had an accumulated deficit of approximately \$94.2 million. For the six months ended June 30, 2020 the Company earned revenue of approximately \$1.1 million and incurred a loss from operations of approximately \$5.5 million.

The reports of our independent registered public accounting firm on our consolidated financial statements for the years ended December 31, 2019 and 2018 contained an explanatory paragraph regarding our ability to continue as a going concern based upon our net losses.

These unaudited condensed 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 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.

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"). 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.

In May 2020, the Company received a loan of approximately \$485,000 under the Paycheck Protection Program of the U.S. Small Business Association 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.

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 purchased 3,441,558 shares of common stock at an average price of \$0.06 cents per share for \$200,000.

Additionally, on June 30, 2020, the Company entered into and consummated private transactions pursuant to which a portion of the Company's warrants exercisable at various prices were exercised at an average exercise price of \$0.06 per share for approximately \$1,249,000. The Company received cash proceeds of \$283,950 and a stock subscription receivable for \$965,033 which was received in full subsequent to June 30, 2020.

There is no assurance that the Company will ever be profitable or be able to secure funding or generate sufficient revenues to sustain operations. As such, there is substantial doubt about the Company's ability to continue as a going concern. These unaudited condensed 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.

#### *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 three months, as our products are designed to serve an increasingly mobile economy and workforce.

#### *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 six months ended June 30, 2020 and 2019 because their effect was antidilutive:

Security	2020	2019
Stock Options	159,744,061	106,600,006
Warrants	29,130,069	47,453,227
Total	188,874,130	154,053,233

#### *Inventories*

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. 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 at June 30, 2020 consist solely of the cards inventory. As of December 31, 2019, inventory consisted of kiosks that were not placed into service and were held for sale and cards inventory. Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period. As of December 31, 2019, the Company had an inventory valuation allowance of approximately \$236,000 to reflect net realizable value of the kiosks that are being held for sale and the Company believed no valuation allowance was necessary regarding the cards inventory. As of June 30, 2020, the Company did not believe a valuation allowance was necessary for the cards inventory.

## Revenue Recognition

Below is the Company's revenue recognition policy determined by revenue stream for its significant revenue generating activities during the period ended June 30, 2020.

**Cards Plus** - The Company recognizes revenue for the design and production of cards 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 upon delivery 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 deferred revenue contract liability of approximately \$454,000 and \$425,000 as of June 30, 2020 and December 31, 2019 for certain revenue that will be earned in future periods. The majority of the \$425,000 of deferred revenue contract liability as of December 31, 2019 was earned in the first three months of 2020. The \$454,000 of deferred revenue contract liability as of June 30, 2020 will be earned over the ensuing four quarters. 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 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).

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 sales 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 general and administrative expense in the Company's Consolidated Statements of Operations.

As of June 30, 2020, the Company had deferred contract costs, represented by contract cost assets of approximately \$3,750 which are included in other current assets for certain costs incurred for the future delivery of election support services. The performance obligation will be met over the next year and the costs will be expensed as the associated revenue is recognized as the Company performs its obligations.

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.

#### **NOTE 2 – PROPERTY AND EQUIPMENT, NET**

Property and equipment consisted of the following as of June 30, 2020 and December 31, 2019:

	2020	2019
Property and equipment	\$ 284,710	\$ 282,316
Equipment under capital lease (see Note 10)	156,867	156,867
	441,577	439,183
Less: accumulated depreciation	(327,762)	(277,363)
Property and equipment, net	<u>\$ 113,815</u>	<u>\$ 161,820</u>

Depreciation expense totaled \$26,533 and \$45,203 for the six months ended June 30, 2020 and 2019, respectively.

#### **NOTE 3 – OTHER ASSETS**

Other assets consisted of the following at June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Software and development costs	\$ -	\$ 128,005
Operating lease right of use assets	89,210	171,141
Other	152,390	83,920
	<u>\$ 241,600</u>	<u>\$ 383,066</u>

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

The Company’s intangible assets consist of acquired and developed software and intellectual property acquired from MultiPay and FIN and are amortized over their estimated useful lives as indicated below. The following is a summary of activity related to intangible assets for the three months ended June 30, 2020:

	Customer Relationships	Acquired and Developed Software	Intellectual Property	Patents Pending	Total
Useful Lives	10 Years	5 Years	10 Years	N/A	
Carrying Value at December 31, 2019	\$ 970,019	\$ 3,651,924	\$ 862,792	\$ 108,877	\$ 5,593,612
Additions	-	252,875	-	4,925	257,800
Amortization	(79,358)	(425,821)	(74,192)	-	(579,371)
Carrying Value at June 30, 2020	<u>\$ 890,661</u>	<u>\$ 3,478,978</u>	<u>\$ 788,600</u>	<u>\$ 113,802</u>	<u>\$ 5,272,041</u>

The following is a summary of intangible assets as of June 30, 2020:

	Customer Relationships	Acquired and Developed Software	Intellectual Property	Patents Pending	Total
Cost	\$ 1,587,159	\$ 4,324,425	\$ 1,498,364	\$ 113,802	\$ 7,537,837
Accumulated amortization	(696,498)	(845,446)	(709,764)	-	(2,265,796)
Carrying Value at June 30, 2020	<u>\$ 890,661</u>	<u>\$ 3,478,980</u>	<u>\$ 788,600</u>	<u>\$ 113,802</u>	<u>\$ 5,272,041</u>

Amortization expense totaled \$579,371 and \$282,493 for the six months ended June 30, 2020 and 2019, respectively.

Future expected amortization of intangible assets is as follows:

Fiscal Year Ending December 31,	
Remainder of 2020	\$ 604,658
2021	1,209,317
2022	1,115,983
2023	1,064,994
2024	841,492
Thereafter	435,597
	<u>\$ 5,272,041</u>

## NOTE 5 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of June 30, 2020 and December 31, 2019:

	June 30, 2020	December 31, 2019
Trade payables	\$ 663,254	\$ 621,292
Accrued interest	241,072	641,834
Accrued payroll and related obligations	1,062,246	386,165
Current portion of operating lease liabilities	145,259	242,650
Other	543,276	323,971
Total	<u>\$ 2,655,107</u>	<u>\$ 2,215,912</u>

## NOTE 6 - NOTES PAYABLE, NET

The following is a summary of notes payable as of June 30, 2020 and December 31, 2019:

	June 30, 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	10,267	12,866
Total Principal Outstanding	<u>\$ 496,027</u>	<u>\$ 2,012,866</u>
Unamortized Deferred Debt Discount	-	(26,722)
Unamortized Deferred Debt Issuance Costs	-	(9,866)
Notes Payable, Net	<u>\$ 496,027</u>	<u>\$ 1,976,278</u>
Notes Payable, current portion, net of discounts and current portion	<u>\$ 5,635</u>	<u>\$ 5,341</u>
Notes Payable, net of discounts and current portion	<u>490,392</u>	<u>1,970,937</u>
	<u>\$ 496,027</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. The Company allocated the proceeds to the note payable and common stock based on their relative fair value and recorded a discount of \$830,018 to be amortized into interest expense over the two-year term of the note. The Company also paid debt issuance costs consisting of a cash fee of \$120,000 and 1,020,000 shares of common stock of the Company with a fair value of \$306,000. On April 30, 2018, the Company and the Noteholder agreed to extend the due date of the note until April 30, 2020 for an extension fee of 1,500,000 shares of the Common Stock issued to the Noteholder. The April 2018 change in terms of the Note payable has been determined to be a debt extinguishment in accordance with ASC 470. The reported amounts under the debt extinguishment are not significantly different than that of the Company’s reported amounts. The Note was amended on February 14, 2020 to conform to the terms of the 2020 Convertible Notes Payable offering.

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 and that the interest due under the Note as of January 31, 2020 in the amount of \$662,000 will remain due and payable on the same terms as exist in the Note prior to modification provided that the maturity of such interest shall be extended to the same maturity date as the 2020 Notes detailed in Note 7. The Company accounted for the Restated Stern Note as an extinguishment of the Note and recorded a charge of \$985,000 included in Other expenses in accompanying condensed consolidated statements of operations.

Paycheck Protection Program Loan - In May 2020, the Company received a loan of \$485,760 under the Paycheck Protection Program of the U.S. Small Business Association 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.

The following is a roll-forward of the Company's notes payable and related discounts for the six months ended June 30, 2020:

	Principal Balance	Debt Discounts	Debt Issuance Costs	Total
Balance at December 31, 2019	\$ 2,012,866	\$ (9,866)	\$ (26,722)	\$ 1,976,278
Proceeds	485,760	--		485,760
Payments	(2,599)	-	-	(2,599)
Conversion of note payable to convertible notes payable	(2,000,000)	-	-	(2,000,000)
Amortization	-	9,866	26,722	36,588
Balance at June 30, 2020	<u>\$ 496,027</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 496,027</u>

See Note 7 with the respect to the conversion of the \$2,000,000 Senior Unsecured Note.

#### 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 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"). 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.

If the Company prepays all or a portion of the 2020 Note prior to the one-year anniversary of the 2020 Note issuance date (the “2020 Note Anniversary”), then the Company will be required to pay interest on the principal prepaid or paid at maturity through the 2020 Note Anniversary. Further, upon maturity or in the event of default and/or bankruptcy of the 2020 Notes, the Company will be required to pay 150% of the principal due under the 2020 Notes.

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.

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 and that the interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 will remain due and payable on the same terms as exist in the Stern Note prior to modification provided that 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.

In February 2020, the Company offered all warrant holders holding warrants to purchase shares of Company common stock issued in July 2015 (“2015 Warrants”) the right to extend the term of the 2015 Warrants for a period of two years, subject to an increase in the Exercise Price (as defined therein) to \$0.06 per share, providing that such warrant holders invested a minimum \$100,000 in the 2020 Note private offering. As a result, a portion of the 2015 Warrant holders participated in the 2020 Note offering and the Company extended the exercise period two years for the 2015 Warrants representing the right to acquire 6,380,000 shares of common stock. The fair market value of the modification of warrants extended was approximately \$95,000. Vista Associates, L.P. (“Vista”) of which, Mr. Selzer, a director of the Company is the General Partner, held 2015 Warrants to acquire 880,000 shares of common stock, which were also extended as a result of his investment and in June 2020, Vista exercised its 2015 Warrants and converted into 880,000 shares of common stock.

The following is a summary of the convertible notes payable outstanding at June 30, 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	(705,911)
Unamortized debt issuance costs	(85,551)
	<u>\$ 5,563,538</u>

Future maturities of convertible notes payable are as follows:

2020	\$ -
2021	-
2022	6,355,000
	<u>\$ 6,355,000</u>



## NOTE 8 – RELATED PARTY 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 will earn an initial base salary of \$250,000 per annum 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 \$175,000 per annum 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.

### *Issuance of Common Stock*

During the six months ended June 30, 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 June 30, 2020, but as 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, 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 and that the interest due under the Stern Note as of January 31, 2020 in the amount of \$662,000 will remain due and payable on the same terms as exist in the Stern Note prior to modification provided that 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, the Company paid Network 1 Financial Securities, Inc., a registered broker-dealer ("Network 1"), a cash fee of approximately \$104,800. 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). 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 member of the Board of Director's and his family. During each of the six months ended June 30, 2020 and 2019, the Company paid rent of \$30,000 and \$44,450, 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.

## **NOTE 9 – STOCKHOLDER'S EQUITY**

### *Common Stock*

During the six months ended June 30, 2020, the Company granted 4,500,000 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 1,500,000 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 six months ended June 30, 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.

In 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.

In 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.

The June 2020 subscriptions and warrant exercise transactions resulted in the issuance of approximately 23.9 million shares of common stock for approximately \$1.45 million, including a stock subscription receivable of approximately \$0.97 million which was collected in full subsequent to June 30, 2020.

The Company recorded a charge of approximately \$367,000 in connection with an inducement to the warrant holders who exercised their outstanding warrants.

### **Warrants**

The following is a summary of the Company's warrant activity for the six months ended June 30, 2020:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life
Outstanding at December 31, 2019	47,453,227	\$ 0.08	1.4 Years
Granted	7,458,085	0.15	2.0 Years
Exercised/Cancelled	(25,781,243)	0.06	0.8 Years
Outstanding at June 30, 2020	29,130,069	\$ 0.12	1.6 Years

During the six months ended June 30, 2020, certain of the 2015 Warrant holders participated in the 2020 Note offering and the Company extended the exercise period by two years, subject to an increase in the Exercise Price from \$0.05 per share (as defined therein) to \$0.06 per share of 2015 Warrants representing the right to acquire 6,380,000 shares of common stock. As noted above a portion of the 2015 Warrants (or \$0.06 Warrants) were exercised for cash on June 30, 2020. Vista of which Mr. Selzer, a director of the Company, is the General Partner held 880,000 2015 Warrants, which were also extended as a result of his investment and were exercised for cash on June 30, 2020. The fair market value of the modification of warrants extended was approximately \$95,000.

### **Stock Options**

During the six months ended June 30, 2020, the Company determined the grant date fair value of the options granted using the Black Scholes Method. The following assumptions were used in the six months ended June 30, 2020:

Expected Volatility – 68-75%  
 Expected Term – 5.0 Years  
 Risk Free Rate – 0.30- 0.34%  
 Dividend Rate – 0.00%

Activity related to stock options for the six months ended June 30, 2020 is summarized as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Yrs.)	Aggregate Intrinsic Value
Outstanding as of December 31, 2019	109,400,006	\$ 0.20	6.5	\$ 280,000
Granted	51,044,054	0.07	10.0	200,000
Forfeitures	(699,999)	0.23	-	-
Outstanding as of June 30, 2020	159,744,061	0.19	7.6	\$ 104,650
Exercisable as of June 30, 2020	113,750,727	\$ 0.15	6.8	\$ 104,650

The following table summarizes stock option information as of June 30, 2020:

Exercise Price	Outstanding	Weighted Avg. Life	Exercisable
\$ 0.0001	3,500,000	6.00	3,500,000
\$ 0.05	35,700,006	6.85	31,950,006
\$ 0.06	1,044,054	9.60	1,044,054
\$ 0.07	50,000,000	9.90	10,000,000
\$ 0.10	27,200,000	6.75	27,200,000
\$ 0.119	400,001	9.22	200,000
\$ 0.124	600,000	8.75	390,000
\$ 0.130	250,000	7.80	166,667
\$ 0.15	2,800,000	5.85	2,800,000
\$ 0.22	2,583,333	8.05	1,500,000
\$ 0.250	2,500,000	7.85	1,833,333
\$ 0.260	166,667	8.30	166,667
\$ 0.290	1,000,000	7.30	1,000,000
\$ 0.400	1,000,000	6.17	1,000,000
\$ 0.450	31,000,000	5.85	31,000,000
	159,744,061	7.63	113,750,727

See related party information with respect to the grant of stock options to Messrs. Kumnick and Broenniman.

During the six months ended June 30, 2020, the Company recognized approximately \$561,000 of stock option based compensation expense related to options of which non-employees' expense was approximately \$13,000. As of June 30, 2020, there was approximately \$448,000 of unrecognized compensation costs related to stock options outstanding of which approximately \$13,000 is related to non-employees and will be expensed through 2022.

## NOTE 10 – DIRECT FINANCING LEASE

In September 2015, the Company and an entity in Colombia entered into a rental contract for the rental of 78 kiosks to provide cash collection and fare services at transportation stations. The lease term began in May 2016 when the kiosk was installed and operational and when the lease commenced. The term of the rental contract is ten years at an approximate monthly rental of \$11,900. The lease 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. The lease was accounted for as a direct financing lease.

The Company has recorded the transaction as 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 per month and initial direct costs are not considered significant. The transaction resulted in incremental revenue in the six months ended June 30, 2020 of approximately \$30,000.

The equipment is subject to direct lease 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 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	
Remainder 2020	\$ 61,074
2021	122,148
2022	122,148
2023	122,148
2024	122,148
Thereafter	162,864
Sub-total	<u>712,530</u>
Less deferred revenue	<u>(184,290)</u>
Net investment in lease	<u>\$ 528,240</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 finance 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 June 30, 2020 is \$107,152. The following is a schedule showing the future minimum lease payments under finance lease by year and the present value of the minimum lease payments as of June 30, 2020. The interest rate related to the lease obligation is 12% and the maturity date is March 2022.

Year ending December 31	
Remainder of 2020	\$ 21,548
2021	43,096
2022	<u>10,774</u>
Total minimum lease payments	75,418
Less: Amount representing interest	<u>(7,696)</u>
Present value of minimum lease payments	<u>\$ 67,722</u>

## NOTE 12 – 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 the outcome of such proceedings will have a material adverse effect on the financial condition or results of operations of the Company.

### *Leases*

For the six months ended June 30, 2020, lease expense was approximately \$165,000 inclusive of short-term leases.

The lease related balances included in the Condensed Consolidated Balance Sheet as of June 30, 2020 were as follows:

#### *Assets:*

Current portion of operating lease ROU assets - included in other current assets	\$ 190,268
Operating lease ROU assets – included in other Assets	<u>89,210</u>
Total operating lease assets	<u>\$ 279,478</u>

#### *Liabilities:*

Current portion of ROU liabilities – included in accounts payable and accrued expenses	\$ 145,259
Long-term portion of ROU liabilities – included in other liabilities	<u>92,503</u>
Total operating lease liabilities	<u>\$ 237,762</u>

The weighted average lease term is 1.8 years and weighted average discount rate used in the calculations were 13.55%.

The following table presents the maturity of the Company's operating lease liabilities as of June 30, 2020:

Remainder of 2020	\$ 132,017
2021	96,607
2022	<u>49,716</u>
Total operating lease payments	<u>278,340</u>
Less: imputed interest	<u>(40,578)</u>
Total operating lease liabilities	<u>\$ 237,762</u>

The Company leases approximately 2,100 square feet of office space in Plantation, Florida. Monthly rental is approximately \$2,700 per month with a 3% increase on each annual anniversary. The Company terminated its lease and will pay its final obligations under the lease by August 2020.

In October 2018, the Company entered into an office lease in Alpharetta, Ga. for approximately \$3,800 per month.

The Company did not renew its lease at the end of the lease term in March 2020.

Additionally, the Company rents office space in Long Beach, New York at a monthly cost of \$5,000. 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 member of the Board of Directors.

The Company leases an office location in Bogota, Colombia. In April 2017, MultiPay S.A.S. entered an office lease beginning April 22, 2017. The lease cost is approximately \$8,500 per month with an inflation adjustment after one year. The lease is automatically extended for one additional year unless written notice to the contrary is provided at least six months in advance. The Company extended the lease through April 2021. Furthermore, the Company leased an apartment at approximately \$2,000 a month for one of the management team which has now been terminated.

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.

On May 22, 2020, the Company and Mr. Beck entered into a separation letter agreement, which provided payment to the 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. The amounts recorded in connection with the aforementioned agreement are accrued in accrued payroll and related obligations.

## **NOTE 13- IMPAIRMENT LOSS**

### ***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. 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 at Cards Plus 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 as well as future realizable value. The goodwill impairment loss for the six months ended June 30, 2020 was approximately \$1,035,000.

## **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's 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 revenue 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 ticketing 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 \$8.9 million, \$0.3 million and \$0.3 million.

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.

(unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Net Revenues:</b>				
North America	\$ 135,698	\$ 146,583	\$ 269,252	\$ 373,624
South America	72,133	120,613	185,757	245,941
Africa	113,288	377,765	659,899	765,774
	<u>321,119</u>	<u>644,961</u>	<u>1,114,908</u>	<u>1,385,339</u>
Identity Management	248,986	524,348	929,151	1,139,398
Payment Processing	72,133	120,613	185,757	245,941
	<u>321,119</u>	<u>644,961</u>	<u>1,114,908</u>	<u>1,385,339</u>
<b>Loss From Operations</b>				
North America	(670,183)	(681,690)	(1,076,575)	(1,419,652)
South America	(1,803,784)	(1,220,869)	(3,015,936)	(2,477,821)
Africa	(332,654)	(181,979)	(1,386,718)	(355,439)
	<u>(2,806,621)</u>	<u>(2,084,538)</u>	<u>(5,479,229)</u>	<u>(4,252,912)</u>
Identity Management	(1,002,837)	(863,669)	(2,463,293)	(1,775,091)
Payment Processing	(1,803,784)	(1,220,869)	(3,015,936)	(2,477,821)
	<u>(2,806,621)</u>	<u>(2,084,538)</u>	<u>(5,479,229)</u>	<u>(4,252,912)</u>
Interest Expense	(310,153)	(93,260)	(489,203)	(180,150)
Other income/(expense)	(342,082)	6,271	(1,317,971)	12,497
Loss before income taxes	<u>(3,458,856)</u>	<u>(2,171,527)</u>	<u>(7,286,403)</u>	<u>(4,420,565)</u>
Income tax expense	(3,592)	(4,264)	(12,466)	(17,965)
Net loss	<u>\$ (3,462,448)</u>	<u>\$ (2,175,791)</u>	<u>\$ (7,298,869)</u>	<u>\$ (4,438,530)</u>



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Going concern

As of June 30, 2020, the Company had an accumulated deficit of approximately \$94.2 million. For the six months ended June 30, 2020 the Company earned revenue of approximately \$1.1 million and incurred a loss from operations of approximately \$5.5 million.

The reports of our independent registered public accounting firms on our consolidated financial statements for the years ended December 31, 2019 and 2018 contained an explanatory paragraph regarding our ability to continue as a going concern based upon our net losses.

These unaudited condensed 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.

There is no assurance that the Company will ever be profitable or be able to secure funding or generate sufficient revenues to sustain operations. As such, there is substantial doubt about the Company's ability to continue as a going concern. These unaudited condensed 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.

### Overview

Ipsidy Inc. (formerly known as ID Global Solutions Corporation) (together with its subsidiaries, the "Company", "we" or "our") operates 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 at the door?

Ipsidy provides secure, biometric identification, identity verification and electronic transaction authentication and processing 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 support 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 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 authentication, and access and transaction controls and associated identity management needs. Organizations of all descriptions require cost-effective and secure mobile electronic transaction solutions for them 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.

Our digital mobile wallet applications, or electronic account holders are used to contain different services and accounts that can be easily added and enable users to conveniently and securely effect a variety of electronic transactions, using their identity. One example is for consumers and employees to use their mobile application to authenticate identity, in order to access secure digital, or physical environments. We have launched our integrated Verified<sup>TM</sup> solution with Datapro as an add-on to their online banking software.

Proof<sup>TM</sup> 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 in the future, 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 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, Datapro, a financial services banking platform, 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.

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<sup>TM</sup> 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 biometric technologies, with those acquired 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](http://www.ipsidy.com). The contents of our website are not incorporated into, or otherwise to be regarded as part of, this Quarterly Report on Form 10-Q

### ***Adjusted EBITDA***

This discussion includes information about Adjusted EBITDA that is not prepared in accordance with GAAP. Adjusted EBITDA is not based on any standardized methodology prescribed by 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 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.

Management believes that Adjusted EBITDA, when viewed with our results under 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. Additionally, we will continue to use Adjusted EBITDA in connection with our executive performance-based compensation in 2020.

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 GAAP results and using Adjusted EBITDA only as a supplement to our GAAP results.

**Reconciliation of Net Loss to Adjusted EBITDA**  
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net loss	\$ (3,462,448)	\$ (2,175,791)	\$ (7,298,869)	\$ (4,438,530)
Add Back:				
Interest Expense	310,153	93,260	489,203	180,150
Other expense/(income)	342,082	(6,271)	1,317,971	(12,497)
Severance cost	426,175	-	426,175	-
Depreciation and amortization	321,987	166,908	647,331	327,696
Taxes	3,592	4,264	12,466	17,965
Impairment loss	163,822	-	1,035,629	-
Stock compensation	460,883	372,341	629,993	787,720
Adjusted EBITDA (Non-GAAP)	<u>\$ (1,433,754)</u>	<u>\$ (1,545,289)</u>	<u>\$ (2,740,101)</u>	<u>\$ (3,137,496)</u>

Adjusted EBITDA loss for the six months ended June 30, 2020 compared to June 30, 2019 decreased by approximately \$0.4 million due to a decrease in salary and technology expenditures.

## **Three and Six Months Ended June 30, 2020 and June 30, 2019**

### **Revenues, net**

During the three and six months ended June 30, 2020, the Company had revenues of approximately \$0.3 million and \$1.1 million, respectively compared to \$0.6 million and \$1.4 million in the three and six months ended June 30, 2019, respectively. The decrease is principally due to the Covid-19 pandemic and its impact on revenue at Cards Plus.

### **Cost of sales**

During the three months ended June 30, 2020, cost of sales was lower than the cost of sales in the three months ended June 30, 2019 due to lower revenue at Cards Plus. During the six months ended June 30, 2020, cost of sales was higher than the cost of sales in the six months ended June 30, 2019 principally due to lower margin revenue at Cards Plus in the first three months of 2020 offset by lower costs related to decreased revenue principally due to the pandemic.

### **General and administrative expenses**

During the three months ended June 30, 2020 compared to June 30, 2019, general and administrative expense increased by \$0.5 million principally due to a severance charge for one executive officer of approximately \$0.4 million and a higher stock compensation charges of approximately \$0.3 million arising from the grant of options with immediate vesting to two new executive officers offset by lower overall costs. For the six months ended June 30, 2020 compared to June 30, 2019, respectively, general and administrative expenses decreased by approximately \$0.2 million due to lower overall costs offset by the expenses described above in the three months ended June 30, 2020.

### **Research and development expenses**

During the three and six months ended June 30, 2020 compared to June 30, 2019, research and development expenses decreased by approximately \$0.3 million and \$0.3 million, respectively due to the refocusing of technology spend.

### **Impairment loss**

During the three and six months ended June 30, 2020, the Company recorded an impairment loss of approximately \$164,000 and \$1,036,000, respectively, associated with goodwill of 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. The fair value of the reporting unit was determined using discounted cash flow as well as future realizable value.

### **Depreciation and amortization expense**

During the three and six months ended June 30, 2020 compared to June 30, 2019, depreciation and amortization expense increased as a result of placing into service certain of the new product offerings.

### **Other Income (Expense)**

During the six months ended June 30, 2020, the Company recorded a charge of approximately \$985,000 related to an extinguishment of a note payable and a charge of approximately \$367,000 in connection with an inducement to certain warrant holders to exercise their outstanding warrants.

### **Interest expense**

Interest expense increased during the three and six months ended June 30, 2020 compared to June 30, 2019, principally due to the convertible debt offerings in December 2019 and February 2020 which increased level of debt outstanding as well as provided higher rates.

## Liquidity and Capital Resources

The Company has approximately \$0.8 million of cash on hand and has a deficiency in working capital of approximately \$0.6 million

Cash used in operating activities was approximately \$2.0 million and \$2.7 million in the six months ended June 30, 2020 and June 30, 2019 respectively.

The Company expects incremental revenue and cash to be generated in the second half of 2020 and beyond from the delivery of software products to new customers across various geographies.

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”). 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.

In May 2020, the Company received a loan of approximately \$485,000 under the Paycheck Protection Program of the U.S. Small Business Association 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.

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 purchased 3,441,558 shares of common stock at an average price of \$0.06 cents per share for \$200,000.

Additionally, on June 30, 2020, Company entered into and consummated private transactions pursuant to which a portion of the Company’s warrants exercisable at various prices were exercised for cash at an average exercise price of \$0.06 per share for approximately \$1,249,000.

In 2020, 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 or available on acceptable terms. In order to continue our operations through June 30, 2021 as contemplated in our current business plan, we expect that we will need to raise approximately \$4.5 to \$6.0 million.

The Company raised approximately \$2,832,000 in the six months ended June 30, 2019, through the sale of common stock.

There is no guarantee that our current business plan will not change and, as a result of such change, that we will need additional capital to implement such business plan.

## 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 has had limited operations in the second quarter of 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 business inquiring about our services has increased as our products serve an increasing mobile economy and workforce.

See above – Impairment loss and Note 13 to the unaudited financial statements.

### **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is deemed by our management to be material to investors.

### **Recent Accounting Policies**

The recent material accounting policies that may be the most critical to understanding of the financial results and conditions are discussed in Note 1 of the unaudited financial statements.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

As a smaller reporting company, we are not required to include disclosure under this item.

### **ITEM 4. CONTROLS AND PROCEDURES.**

#### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this Quarterly 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 June 30, 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.

#### **Changes in Internal Control over Financial Reporting**

During the six months ended June 30, 2020, the Company has instituted revised policies and procedures with respect to impairment for goodwill and intangible assets, including an intention to use third party experts when appropriate. We believe that these efforts have begun to remediate the control deficiency that existed in 2019 and we will continue to evaluate our processes and policies for further remediation efforts. We anticipate that these remediation efforts will be sufficient to address the control deficiency by the end of the current fiscal year. Except for these remediation efforts, there were no changes made in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) during the quarter ended June 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

Risk factors describing the major risks to our business can be found under Item 1A, "Risk Factors", in our Annual Report on Form 10-K for the year ended December 31, 2019. There has been no material change in our risk factors from those previously discussed in the Annual Report on Form 10-K.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Mr. Phillip Kumnick and Mr. Philip Broenniman, two of the Company's Director's 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 the six months ended June 30, 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. The restricted stock vests upon the achievement of certain performance criteria. The performance criteria have not been met as of June 30, 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.

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 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our operations.

## ITEM 5. OTHER INFORMATION

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. Philip D. Beck resigned as Chief Executive Officer but will continue as Chairman of the Board of Directors of the Company. 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. Thomas Szoke, a director of the Company that formerly served as Chief Operating Officer, was appointed as Chief Solutions Architect.

## ITEM 6. EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
2.1 (1)	<a href="#">Agreement and Plan of Reorganization</a>
3.1 (2)	<a href="#">Certificate of Incorporation</a>
3.2 (2)	<a href="#">By-laws</a>
3.3 (3)	<a href="#">Certificate of Ownership and Merger</a>
3.4 (4)	<a href="#">Certificate of Amendment to the Certificate of Incorporation dated February 1, 2017</a>
3.5 (5)	<a href="#">Certificate of Amendment to the Certificate of Incorporation dated October 3, 2017</a>
4.1 (6)	<a href="#">Stock Option dated May 28, 2015 issued to Ricky Solomon</a>
4.2 (7)	<a href="#">Common Stock Purchase Warrant issued to Ricky Solomon</a>
4.3 (8)	<a href="#">Form of Common Stock Purchase Warrant issued to the 2015 Accredited Investors</a>
4.4 (9)	<a href="#">Stock Option dated September 25, 2015 issued to Herbert M. Seltzer</a>
4.5 (10)	<a href="#">Common Stock Purchase Warrant issued to ID Solutions Inc.</a>
4.6 (11)	<a href="#">Stock Option issued to Thomas Szoke dated September 25, 2015</a>
4.7 (11)	<a href="#">Stock Option issued to Douglas Solomon dated September 25, 2015</a>
4.8 (11)	<a href="#">Stock Option issued to Maksim Umarov dated September 25, 2015</a>
4.9 (12)	<a href="#">Form of Common Stock Purchase Warrant issued to the 2015 Accredited Investors</a>
4.10 (13)	<a href="#">Form of Common Stock Purchase Warrant issued to the April 2016 Accredited Investors</a>
4.11 (14)	<a href="#">Stock Option issued to Parity Labs, LLC</a>
4.12 (15)	<a href="#">Stock Option Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017</a>
4.13 (4)	<a href="#">Stock Option Agreement entered between the Company and Philip D. Beck dated January 31 2017</a>
4.14 (29)	<a href="#">Letter Agreement between Ipsidy Inc. and Theodore Stern Revocable Trust dated April 30, 2018.</a>
4.15 (30)	<a href="#">Form of Subscription Agreement by and between Ipsidy Inc. and the August 2018 Accredited Investors</a>
4.16 (31)	<a href="#">Form of Subscription Agreement by and between Ipsidy Inc. and the June 2019 Accredited Investors</a>
4.17 (32)	<a href="#">Letter Agreement between The Theodore Stern Revocable Trust and Ipsidy Inc. dated December 13, 2019</a>
4.18 (32)	<a href="#">Form of Securities Purchase Agreement entered between Ipsidy Inc. and the 8% Note Investors</a>
4.19 (32)	<a href="#">Form of 8% Convertible Note</a>
4.20 (33)	<a href="#">Form of 15.0% Convertible Note</a>



4.21	(33)	<a href="#">Amended and Restated Promissory Note issued to The Theodore Stern Revocable Trust</a>
4.22	(35)	<a href="#">Paycheck Protection Program Term Note dated May 6, 2020</a>
10.1	(16)	<a href="#">Assignment of Patents</a>
10.2	(16)	<a href="#">Assignment of Patents</a>
10.3	(16)	<a href="#">Assignment of Patents</a>
10.4	(17)	<a href="#">The ID Global Solutions Corporation Equity Compensation Plan</a>
10.5	(18)	<a href="#">Share Purchase Agreement by and between ID Global Solutions Corporation and the Multipay S.A. Shareholders</a>
10.6	(6)	<a href="#">Director Agreement by and between ID Global Solutions Corporation and Ricky Solomon dated May 28, 2015</a>
10.7	(19)	<a href="#">Director Agreement by and between ID Global Solutions Corporation and Herbert M. Seltzer dated September 25, 2015</a>
10.8	(20)	<a href="#">Employment Agreement between ID Global Solutions Corporation and Maksim Umarov dated July 1, 2015</a>
10.9	(21)	<a href="#">Letter Agreement entered between ID Global Solutions Corporation and Maksim Umarov dated September 25, 2015</a>
10.10	(22)	<a href="#">Share Exchange Agreement by and between ID Global Solutions Corporation, Fin Holdings, Inc. and the Fin Holdings, Inc. shareholders</a>
10.11	(23)	<a href="#">Contract for the Provision of Cash Collection Services entered by and between ID Global LATAM S.A.S. and Recaudo Bogota S.A.S. dated December 30, 2016</a>
10.12	(15)	<a href="#">Confidential Settlement Agreement and General Release between ID Global Solutions Corporation and Charles D. Albanese dated January 26, 2017</a>
10.13	(15)	<a href="#">Executive Retention Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017</a>
10.14	(4)	<a href="#">Indemnification Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017</a>
10.15	(4)	<a href="#">Executive Retention Agreement entered between the Company and Philip D. Beck dated January 31 2017</a>
10.16	(4)	<a href="#">Executive Retention Agreement entered between the Company and Thomas Szoke dated January 31 2017</a>
10.17	(4)	<a href="#">Executive Retention Agreement entered between the Company and Douglas Solomon dated January 31, 2017</a>
10.18	(4)	<a href="#">Form of Conversion Agreement dated January 31, 2017</a>
10.19	(4)	<a href="#">Stand-Off Agreement dated January 31, 2017 entered between Philip Beck, Stuart Stoller, Thomas Szoke, Douglas Solomon, Herbert Selzer, Ricky Solomon and the Company</a>
10.20	(24)	<a href="#">Amendment No. 1 to the Share Purchase Agreement by and between Ipsidy Inc and the MultiPay Shareholders dated March 7, 2015</a>
10.21	(4)	<a href="#">Form of Indemnity Agreement</a>
10.22	(25)	<a href="#">Confidential Settlement Agreement and General Release between Ipsidy Inc. and Douglas Solomon dated September 13, 2017</a>
10.23	(25)	<a href="#">Agency Agreement between Ipsidy Inc. and Douglas Solomon dated September 13, 2017</a>
10.24	(26)	<a href="#">Restricted Stock Agreement dated September 29, 2017 between Philip D. Beck and Ipsidy Inc.</a>
10.25	(26)	<a href="#">Restricted Stock Agreement dated September 29, 2017 between Stuart P. Stoller and Ipsidy Inc.</a>
10.26	(27)	<a href="#">Settlement Agreement entered between ID Global LATAM S.A.S. and Recaudo Bogota S.A.S.</a>
10.27	(29)	<a href="#">2017 Incentive Stock Plan</a>

10.28	(29)	<a href="#">Letter from Ipsidy Inc. to Philip Beck dated May 3, 2018</a>
10.29	(29)	<a href="#">Letter from Ipsidy Inc. to Stuart Stoller dated May 3, 2018</a>
10.30	(29)	<a href="#">Letter from Ipsidy Inc. to Thomas Szoke dated May 3, 2018</a>
10.31	(32)	<a href="#">Letter Agreement between Phillip L. Kumnick and Ipsidy Inc.</a>
10.32	(33)	<a href="#">Form of Securities Purchase Agreement – 2020 Notes</a>
10.33	(33)	<a href="#">Form of Security Agreement – 2020 Notes</a>
10.34	(33)	<a href="#">Form of Letter Agreement between Ipsidy Inc. and the 8% Convertible Note Holders</a>
10.35	(34)	<a href="#">Letter Agreement between Phillip R. Broenniman and Ipsidy Inc.</a>
10.36	(36)	<a href="#">Letter Agreement between Philip D. Beck and Ipsidy Inc. dated May 22, 2020</a>
14.1	(28)	<a href="#">Code of Ethics</a>
21.1	(28)	<a href="#">List of Subsidiaries</a>
31.1*		<a href="#">Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act</a>
31.2*		<a href="#">Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act</a>
32.1*		<a href="#">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</a>
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
- (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.

**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.**

By: /s/ Phillip Kumnick  
Chief Executive Officer,  
Principal Executive Officer

By: /s/ Stuart Stoller  
Chief Financial Officer,  
Principal Financial and Accounting Officer

Dated: August 6, 2020

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Philip Kumnick, Chief Executive Officer certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ipsidy Inc;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 quarter 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 material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 6, 2020

/s/ Phillip Kumnick

Phillip Kumnick

Chief Executive Officer

(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL AND ACCOUNTING 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 quarterly report on Form 10-Q of Ipsidy Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 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 quarter 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 material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 6, 2020

/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 Quarterly Report of Ipsidy Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2020 as filed with the Securities and Exchange Commission (the "Report"), I, Phillip Kumnick, Deputy Chairman of the Board of Directors and Chief Executive Officer and, Stuart Stoller, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. SS. 1350, as adopted pursuant to SS. 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 Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Phillip Kumnick

Phillip Kumnick,  
Chief Executive Officer  
(Principal Executive Officer)

August 6, 2020

/s/ Stuart Stoller

Stuart Stoller, Chief Financial Officer  
(Principal Financial and Accounting Officer)