

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 September 30, 2022

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 001-40747



authID Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

46-2069547

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

1385 S. Colorado Blvd
Denver, CO 80222

(Address of principal executive offices) (zip code)

516-274-8700

(Registrant's telephone number, including area code)

1325 S. Colorado Blvd
Denver, CO 80222

(Former name, former address and former fiscal year, if changed since last report)

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|---|----------------|---|
| Common Stock par value \$0.0001 per share | AUID | The NASDAQ Stock Market LLC |

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 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

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

| Class | Outstanding at October 31, 2022 |
|--------------------------------------|---------------------------------|
| Common Stock, par value \$0.0001 | 25,030,964 shares |
| Documents incorporated by reference: | None |



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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, 2021 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,
- market acceptance of our products;
- our ability to attract and retain customers for existing and new products;
- our ability to effectively maintain and update our technology and product and service portfolio;
- our ability to hire and retain key personnel and additional talent;
- our ability to raise capital under acceptable terms;
- our ability to maintain listing of our common stock on the Nasdaq Capital Market;
- our ability to adequately protect our intellectual property, or the loss of some of our intellectual property rights through costly litigation or administrative proceedings;
- our ability to operate in non-US markets;
- the impact of the Covid-19 Pandemic;
- the impact of the war in Ukraine;
- legislation and government regulation; and
- general economic conditions, inflation and access to capital.

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 “authID” “authID.ai,” the “Company,” “we,” “our,” “us,” and similar terms refer to authID Inc., a Delaware corporation and its subsidiaries. The Company was formerly known as Ipsidy Inc.

On July 18, 2022, Ipsidy Inc. changed its corporate name to authID Inc.

The information which appears on our website www.authID.ai is not part of this report.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

**authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)
CONDENSED CONSOLIDATED BALANCE SHEETS**

| | September 30, 2022 | December 31, 2021 |
|---|-------------------------------|------------------------------|
| | <u>(unaudited)</u> | <u></u> |
| ASSETS | | |
| Current Assets: | | |
| Cash | \$ 7,105,967 | \$ 5,767,276 |
| Accounts receivable, net | 36,080 | 26,846 |
| Other current assets | 1,009,323 | 502,721 |
| Current assets held for sale | 81,412 | 629,752 |
| Total current assets | <u>8,232,782</u> | <u>6,926,595</u> |
| Property and Equipment, net | - | 25,399 |
| Other Assets | 300,172 | 2,501 |
| Intangible Assets, net | 1,744,143 | 2,379,451 |
| Goodwill | 4,183,232 | 4,183,232 |
| Non-current assets held for sale | 28,857 | 312,831 |
| Total assets | <u>\$ 14,489,186</u> | <u>\$ 13,830,009</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 2,007,631 | \$ 1,778,092 |
| Convertible debt | 662,000 | 662,000 |
| Deferred revenue | 96,933 | 199,007 |
| Current liabilities held for sale | 100,368 | 295,332 |
| Total current liabilities | <u>2,866,932</u> | <u>2,934,431</u> |
| Non-current Liabilities: | | |
| Convertible debt | 7,699,754 | - |
| Total liabilities | <u>10,566,686</u> | <u>2,934,431</u> |
| Commitments and Contingencies (Note 10) | | |
| Stockholders' Equity: | | |
| Common stock, \$0.0001 par value, 250,000,000 and 1,000,000,000 shares authorized; 24,914,418 and 23,294,024 shares issued and outstanding as of September 30, 2022 and December 31, 2021, respectively | 2,490 | 2,329 |
| Additional paid in capital | 137,889,398 | 126,581,702 |
| Accumulated deficit | (134,108,443) | (115,899,939) |
| Accumulated comprehensive income | 139,055 | 211,486 |
| Total stockholders' equity | <u>3,922,500</u> | <u>10,895,578</u> |
| Total liabilities and stockholders' equity | <u>\$ 14,489,186</u> | <u>\$ 13,830,009</u> |

See notes to condensed consolidated financial statements.

authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-----------------------|--------------------------|------------------------|
| | September 30, | | September 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Revenues: | | | | |
| Verified software license | \$ 30,023 | \$ 12,281 | \$ 116,925 | \$ 45,302 |
| Legacy authentication services | - | 157,068 | 144,559 | 418,878 |
| Total revenues, net | 30,023 | 169,349 | 261,484 | 464,180 |
| Operating Expenses: | | | | |
| General and administrative | 3,914,580 | 4,467,040 | 11,583,798 | 8,526,671 |
| Research and development | 1,620,344 | 811,724 | 4,689,515 | 1,765,098 |
| Depreciation and amortization | 213,049 | 288,731 | 673,882 | 868,166 |
| Total operating expenses | 5,747,973 | 5,567,495 | 16,947,195 | 11,159,935 |
| Loss from continuing operations | (5,717,950) | (5,398,146) | (16,685,711) | (10,695,755) |
| Other Income (Expense): | | | | |
| Other income (expense), net | (42,148) | 491,643 | (38,908) | 971,799 |
| Interest expense, net | (437,301) | (29,577) | (931,205) | (580,928) |
| Other income (expense), net | (479,449) | 462,066 | (970,113) | 390,871 |
| Loss from continuing operations before income taxes | (6,197,399) | (4,936,080) | (17,655,824) | (10,304,884) |
| Income tax (expense) benefit | 7,052 | 2,393 | (1,048) | (4,554) |
| Loss from continuing operations | (6,190,347) | (4,933,687) | (17,656,872) | (10,309,438) |
| Gain (Loss) from discontinued operations | 43,645 | (265,218) | (363,385) | (437,076) |
| Loss from sale of a discontinued operation | (188,247) | - | (188,247) | - |
| Total loss from discontinued operations | (144,602) | (265,218) | (551,632) | (437,076) |
| Net loss | \$ (6,334,949) | \$ (5,198,905) | \$ (18,208,504) | \$ (10,746,514) |
| Net Loss Per Share – Basic and Diluted | | | | |
| Continuing operations | \$ (0.25) | \$ (0.22) | \$ (0.73) | \$ (0.50) |
| Discontinued operations | \$ (0.01) | \$ (0.01) | \$ (0.02) | \$ (0.02) |
| Weighted Average Shares Outstanding – Basic and Diluted | 24,821,962 | 22,088,865 | 24,353,206 | 20,703,970 |

See notes to condensed consolidated financial statements.

authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|-----------------------|--------------------------|------------------------|
| | September 30, | | September 30, | |
| | 2022 | 2021 | 2022 | 2021 |
| Net loss | \$ (6,334,949) | \$ (5,198,905) | \$ (18,208,504) | \$ (10,746,514) |
| Foreign currency translation gain (loss) | (37,383) | 18,966 | (72,431) | 60,991 |
| Comprehensive loss | <u>\$ (6,372,332)</u> | <u>\$ (5,179,939)</u> | <u>\$ (18,280,935)</u> | <u>\$ (10,685,523)</u> |

See notes to condensed consolidated financial statements.

authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

| | Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Income | Total |
|---|-------------------|-----------------|----------------------------------|-------------------------|---|----------------------|
| | Shares | Amount | | | | |
| Balances, December 31, 2021 | 23,294,024 | \$ 2,329 | \$ 126,581,702 | \$ (115,899,939) | \$ 211,486 | \$ 10,895,578 |
| Stock-based compensation | - | - | 6,726,871 | - | - | 6,726,871 |
| Sale of common stock for cash, net of offering costs | 1,063,514 | 106 | 3,146,834 | - | - | 3,146,940 |
| Common stock issued with convertible debt | 28,496 | 3 | 91,754 | - | - | 91,757 |
| Common stock issued for working capital facility | 100,000 | 10 | 302,990 | - | - | 303,000 |
| Shares issued in lieu of interest | 191,714 | 18 | 473,794 | - | - | 473,812 |
| Warrants for services with the issuance of convertible debt | - | - | 449,474 | - | - | 449,474 |
| Cashless stock option exercise | 185,111 | 19 | (19) | - | - | - |
| Cashless warrant exercise | 1,377 | - | - | - | - | - |
| Warrant exercise for cash | 36,668 | 4 | 65,999 | - | - | 66,003 |
| Convertible note converted to common stock | 13,514 | 1 | 49,999 | - | - | 50,000 |
| Net loss | - | - | - | (18,208,504) | - | (18,208,504) |
| Foreign currency translation | - | - | - | - | (72,431) | (72,431) |
| Balances, September 30, 2022 | <u>24,914,418</u> | <u>\$ 2,490</u> | <u>\$ 137,889,398</u> | <u>\$ (134,108,443)</u> | <u>\$ 139,055</u> | <u>\$ 3,922,500</u> |
| Balances, June 30, 2022 | 24,789,418 | \$ 2,478 | \$ 135,322,838 | \$ (127,773,494) | \$ 176,438 | \$ 7,728,260 |
| Shares issued in lieu of interest | 74,818 | 7 | 222,798 | - | - | 222,805 |
| Warrant exercise for cash | 36,668 | 4 | 65,999 | - | - | 66,003 |
| Convertible note converted to common stock | 13,514 | 1 | 49,999 | - | - | 50,000 |
| Stock-based compensation | - | - | 2,227,764 | - | - | 2,227,764 |
| Net loss | - | - | - | (6,334,949) | - | (6,334,949) |
| Foreign currency translation | - | - | - | - | (37,383) | (37,383) |
| Balances, September 30, 2022 | <u>24,914,418</u> | <u>\$ 2,490</u> | <u>\$ 137,889,398</u> | <u>\$ (134,108,443)</u> | <u>\$ 139,055</u> | <u>\$ 3,922,500</u> |
| Balances, December 31, 2020 | 19,642,401 | \$ 1,964 | \$ 102,651,304 | \$ (98,234,151) | \$ 160,642 | \$ 4,579,759 |
| Sale of common stock for cash | 1,642,856 | 164 | 10,282,834 | - | - | 10,282,998 |
| Stock-based compensation | - | - | 4,795,069 | - | - | 4,795,069 |
| Settlement of accrued expense with stock options | - | - | 349,376 | - | - | 349,376 |
| Convertible note converted to common stock | 1,171,296 | 117 | 6,232,223 | - | - | 6,232,340 |
| Stock option exercise for cash | 4,802 | 1 | 24,659 | - | - | 24,660 |
| Warrant exercise for cash | 60,834 | 6 | 273,747 | - | - | 273,753 |
| Cashless stock option exercise | 412,569 | 40 | (40) | - | - | - |
| Cashless warrant exercise | 263,661 | 27 | (27) | - | - | - |
| Net loss | - | - | - | (10,746,514) | - | (10,746,514) |
| Foreign currency translation | - | - | - | - | 60,991 | 60,991 |
| Balances, September 30, 2021 | <u>23,198,419</u> | <u>\$ 2,319</u> | <u>\$ 124,609,145</u> | <u>\$ (108,980,665)</u> | <u>\$ 221,633</u> | <u>\$ 15,852,432</u> |
| Balances, June 30, 2021 | 21,363,027 | \$ 2,137 | \$ 111,493,973 | \$ (103,781,760) | \$ 202,667 | \$ 7,917,017 |
| Sale of common stock for cash | 1,642,856 | 164 | 10,282,834 | - | - | 10,282,998 |
| Stock-based compensation | - | - | 2,533,943 | - | - | 2,533,943 |
| Stock option exercise for cash | 4,802 | 1 | 24,659 | - | - | 24,660 |
| Warrant exercise for cash | 60,834 | 6 | 273,747 | - | - | 273,753 |
| Cashless stock option exercise | 125,998 | 11 | (11) | - | - | - |
| Cashless warrant exercise | 902 | - | - | - | - | - |
| Net loss | - | - | - | (5,198,905) | - | (5,198,905) |
| Foreign currency translation | - | - | - | - | 18,966 | 18,966 |
| Balances, September 30, 2021 | <u>23,198,419</u> | <u>\$ 2,319</u> | <u>\$ 124,609,145</u> | <u>\$ (108,980,665)</u> | <u>\$ 221,633</u> | <u>\$ 15,852,432</u> |

See notes to condensed consolidated financial statements.

authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Nine Months Ended | |
|---|--------------------------|---------------------|
| | September 30, | |
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (18,208,504) | \$ (10,746,514) |
| Adjustments to reconcile net loss with cash flows from operations: | | |
| Loss from sale of discontinued operation | 188,247 | - |
| Depreciation and amortization expense | 674,836 | 860,313 |
| Stock-based compensation | 6,726,871 | 4,795,069 |
| Shares issued in lieu of interest | 473,812 | - |
| Amortization of debt discounts and issuance costs | 403,244 | 554,020 |
| Forgiveness of notes payable | - | (971,522) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (9,234) | (520,027) |
| Net investment in direct financing lease | - | 61,044 |
| Other assets | (161,884) | (606,360) |
| Accounts payable and accrued expenses | 235,050 | 565,011 |
| Deferred revenue | (102,074) | 179,512 |
| Other liabilities | - | (47,809) |
| Discontinued operations | 226,586 | 355,391 |
| Net cash flows from operating activities | <u>(9,553,050)</u> | <u>(5,521,872)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of discontinued operations, net of selling costs | 146,728 | - |
| Cash disposed of from the sale of a discontinued operation | (299,505) | - |
| Purchase of property and equipment | (7,981) | - |
| Purchase of property and equipment – discontinued operations | (16,159) | (79,703) |
| Purchase of intangible assets | (6,311) | (23,702) |
| Net cash flows from investing activities | <u>(183,228)</u> | <u>(103,405)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from sale of common stock, net of offering costs | 3,146,940 | 10,282,998 |
| Proceeds from issuance of convertible note payable, net of issuance costs | 7,992,841 | - |
| Proceeds from exercise of warrants | 66,003 | 273,753 |
| Proceeds from exercise of stock options | - | 24,660 |
| Proceeds from paycheck protection program | - | 485,762 |
| Cash paid for working capital facility | (300,000) | - |
| Payments on notes payable – discontinued operations | (1,579) | (4,400) |
| Principal payments on capital lease obligation – discontinued operations | (10,582) | (28,981) |
| Net cash flows from financing activities | <u>10,893,623</u> | <u>11,033,792</u> |
| Effect of Foreign Currencies | <u>(78,019)</u> | <u>59,607</u> |
| Net Change in Cash | 1,079,326 | 5,468,122 |
| Cash, Beginning of the Period | 5,767,276 | 3,506,171 |
| Cash, Beginning of the Period – Discontinued Operations | 270,707 | 259,106 |
| Cash, End of the Period – Discontinued Operations | (11,342) | (174,247) |
| Cash, End of the Period | <u>\$ 7,105,967</u> | <u>\$ 9,059,152</u> |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest – discontinued operations | \$ - | \$ 8,779 |
| Cash paid for income taxes | \$ 861 | \$ 2,193 |
| Cash paid for income taxes – discontinued operations | \$ 9,068 | \$ 4,493 |
| Schedule of Non-cash Investing and Financing Activities: | | |
| Cashless option and warrant exercises | \$ 19 | \$ 67 |
| Common stock issued with convertible notes | \$ 91,757 | \$ - |
| Common stock for working capital facility | \$ 303,000 | \$ - |
| Warrants for services with the issuance of convertible debt | \$ 449,474 | \$ - |
| Reclass from other assets to intangible assets | \$ - | \$ 8,270 |
| Settlement of accounts payable with issuance of common stock | \$ - | \$ 349,376 |
| Conversion of convertible note payable and accrued interest to common stock | \$ 50,406 | \$ 6,232,340 |

See notes to condensed consolidated financial statements.

authID INC. AND SUBSIDIARIES
(formerly known as Ipsidy Inc.)

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, 2021. The results of operations for the three and nine months ended September 30, 2022 are not necessarily indicative of the results to be expected for future periods or the full year.

Effective July 18, 2022, the Company changed its name to authID Inc.

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

On May 4, 2022, the Board of Directors of authID Inc. approved a plan to exit from certain non-core activities comprising the MultiPay correspondent bank, payments services in Colombia and the Cards Plus cards manufacturing and printing business in South Africa ("Cards Plus business"). On August 29, 2022 the Company executed and completed the sale of the Cards Plus business. As of September 30, 2022 and December 31, 2021, Cards Plus Pty Ltd., MultiPay S.A.S., and IDGS S.A.S assets are presented as assets held for sale on the Company's Condensed Consolidated Balance Sheets and their operations presented as discontinued operations in the Condensed Consolidated Statements of Operations as they met the criteria for discontinued operations under applicable accounting guidance. See Discontinued Operations Note 9 for details.

Going Concern

As of September 30, 2022, the Company had an accumulated deficit of approximately \$134 million. For the three and nine months ended September 30, 2022 the Company earned revenue from continuing operations of approximately \$0.03 million and \$0.3 million respectively and incurred losses from operations of approximately \$4.1 million and \$11.4 million respectively, excluding the stock-based compensation expenses of \$2.2 million and \$6.7 million, respectively.

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.

In March 2022, the Company secured additional financing which management believes will provide adequate funding for its operations as it continues to invest in its product, people, and technology. The Company may need additional capital in the future but currently believes it has sufficient funds to operate its business through December 31, 2023. See Notes 5, 6 and 8.

Reclassification

Certain prior year expenses have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations. Specifically, we reclassified certain expenses from general and administrative expenses to research and development expenses.

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 three and nine months ended September 30, 2022 and 2021 because their effect was antidilutive:

| Security | 2022 | 2021 |
|---------------------------|-------------------|-------------------|
| Convertible notes payable | 2,590,547 | 117,529 |
| Warrants | 1,267,688 | 1,413,611 |
| Stock options | 9,895,187 | 9,322,153 |
| | <u>13,753,422</u> | <u>10,853,293</u> |

Revenue Recognition

Starting in the quarter ended June 30, 2022, the Company separately reports Verified software license revenue from Legacy authentication services revenue. Prior periods revenues are recast accordingly for comparison purposes.

The Company recognizes revenue based on the identified performance obligations over the performance period for fixed consideration and/or for variable fees generated that are earned on a usage fee earned over time based on monthly transaction or user volumes and/or on a monthly flat fee rate. The Company had a contract liability of approximately \$97,000 and \$199,000 as of September 30, 2022 and December 31, 2021, respectively, for certain revenue that will be earned in future periods. Of the \$97,000 of deferred revenue contract liability as of September 30, 2022, the majority will be earned during the balance of 2022. The majority of the deferred revenue contract liability as of December 31, 2021 related to legacy services and was recognized in the quarter ended March 31, 2022. All contracts are reviewed for their respective performance obligations and related revenue and expense recognition implications. Certain of the revenues are derived from Verified software licenses that could include multiple performance obligations. A performance obligation is defined as a promise to provide a "distinct" good or service to a customer. The Company has determined that one possible treatment under U.S. GAAP is that these services will represent a stand-ready series of distinct daily services that are substantially the same, with the same pattern of transfer to the customer. Further, the Company has determined that the performance obligation to provide account access and facilitate transactions should meet the criteria for the "as invoiced" practical expedient, in that the Company has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Company's performance completed to date. As a result, the Company anticipates it may recognize revenue in the amount to which the Company has a right to invoice, based on completed performance at the relevant date. Additionally, the contracts could include implementation services, or support on an "as needed" basis and the Company will review each contract and determine whether such performance obligations are separate and distinct and apply the new standard accordingly to the revenue and expense derived from or related to each such service.

The Company's Legacy authentication services comprised annual software maintenance support services relating to previously licensed software on a stand ready basis. These fees were billed in advance and recognized ratably over the requisite service period as revenue. The contract terminated on April 1, 2022.

Furthermore, the Company will capitalize the incremental costs of acquiring and fulfilling a contract with a customer if the Company expects to recover those costs. These incremental costs were immaterial in both three-month and nine-month periods and the Company recognizes these costs as incurred as they typically relate to a period of less than one year as allowed by the practical expedient and the amounts in the period were immaterial.

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

As of September 30, 2022 and December 31, 2021, the Company did not have any deferred contract costs or fees payable.

NOTE 2 – OTHER CURRENT ASSETS AND OTHER ASSETS

Other current assets consisted of the following at September 30, 2022 (unaudited) and December 31, 2021:

| | <u>September 30, 2022</u> | <u>December 31, 2021</u> |
|---|-------------------------------|------------------------------|
| Prepaid Insurance | \$ 378,014 | \$ 126,042 |
| Unamortized working capital facility fees | 199,156 | - |
| Prepaid Third Party Services | 281,587 | 215,326 |
| Other | 150,566 | 161,353 |
| | <u>\$ 1,009,323</u> | <u>\$ 502,721</u> |

Other assets consisted of the following at September 30, 2022 (unaudited) and December 31, 2021:

| | <u>September 30, 2022</u> | <u>December 31, 2021</u> |
|---|-------------------------------|------------------------------|
| Unamortized working capital facility fees | \$ 298,734 | \$ - |
| Other | 1,438 | 2,501 |
| | <u>\$ 300,172</u> | <u>\$ 2,501</u> |

NOTE 3 – INTANGIBLE ASSETS, NET (OTHER THAN GOODWILL)

The Company's intangible assets primarily consist of acquired and developed software that is being amortized over their estimated useful lives as indicated below. The following is a summary of activity related to intangible assets for the nine months ended September 30, 2022 (unaudited):

| | <u>Acquired and Developed Software</u> | <u>Patents</u> | <u>Total</u> |
|--------------------------------------|--|-------------------|---------------------|
| Useful Lives | 5 Years | 10 years | |
| Carrying Value at December 31, 2021 | \$ 2,238,881 | \$ 140,570 | \$ 2,379,451 |
| Additions | - | 6,311 | 6,311 |
| Amortization | (629,511) | (12,108) | (641,619) |
| Carrying Value at September 30, 2022 | <u>\$ 1,609,370</u> | <u>\$ 134,773</u> | <u>\$ 1,744,143</u> |

The following is a summary of intangible assets as of September 30, 2022 (unaudited):

| | <u>Acquired and Developed Software</u> | <u>Patents</u> | <u>Total</u> |
|--------------------------------------|--|-------------------|---------------------|
| Cost | \$ 4,476,271 | \$ 164,614 | \$ 4,640,885 |
| Accumulated amortization | (2,866,901) | (29,841) | (2,896,742) |
| Carrying Value at September 30, 2022 | <u>\$ 1,609,370</u> | <u>\$ 134,773</u> | <u>\$ 1,744,143</u> |

Amortization expense totaled approximately \$642,000 and \$894,000 for the nine months ended September 30, 2022, and 2021, respectively.

Future expected amortization of intangible assets is as follows:

Fiscal Year Ending December 31,

| | |
|-------------------|---------------------|
| Remainder of 2022 | \$ 213,928 |
| 2023 | 804,722 |
| 2024 | 580,408 |
| 2025 | 63,792 |
| 2026 | 16,456 |
| 2027 | 16,456 |
| Thereafter | 48,381 |
| | <u>\$ 1,744,143</u> |

There is no impairment indicator identified for impairment of the Company's intangible assets and goodwill as of September 30, 2022.

NOTE 4 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following as of September 30, 2022 (unaudited) and December 31, 2021:

| | September 30, 2022 | December 31, 2021 |
|---|-------------------------------|------------------------------|
| Trade payables | \$ 586,902 | \$ 548,087 |
| Accrued interest | 83,203 | 33,533 |
| Accrued payroll and related obligations | 627,881 | 783,144 |
| Other accrued expenses | 709,645 | 413,328 |
| Total | <u>\$ 2,007,631</u> | <u>\$ 1,778,092</u> |

NOTE 5 – WORKING CAPITAL FACILITY

On March 21, 2022, the Company entered into a Facility Agreement with a current shareholder and noteholder of the Company, pursuant to which the shareholder agreed to provide to the Company a \$10.0 million unsecured standby line of credit facility that will rank behind the Convertible Notes (see Note 6) and may be drawn down in several tranches, subject to certain conditions described in the Facility Agreement (the "Credit Facility"). Pursuant to the Credit Facility, the Company agreed to pay a facility commitment fee of 100,000 shares of our common stock upon the effective date of the Credit Facility.

Outstanding borrowings under the Credit Facility will accrue interest at 15% per annum. Drawdowns of the Credit Facility will be in tranches of not less than \$500,000 up to the maximum amount of the Credit Facility, subject to the satisfaction of customary certifications and a certification from the Company that it has no more than \$5 million of cash available to it as of the date of the drawdown request. The Credit Facility contains customary representations and warranties and defined events of default. The Company will be permitted to prepay borrowings under the Credit Facility at any time, without penalty, in part or in full. Upon conversion or redemption of all amounts outstanding under the Convertible Notes and release of all security over the Company's assets, the Company will provide a lien on the Company's intellectual property assets to secure the Credit Facility.

There were no borrowings under the Credit Facility as of September 30, 2022. The unamortized deferred debt expense is approximately \$498,000 of which \$199,000 is included in other current assets and the balance in other assets.

NOTE 6 – CONVERTIBLE NOTES PAYABLE

On March 21, 2022, the Company entered into a Securities Purchase Agreement (“SPA”) with certain accredited investors, including certain directors of the Company or their affiliates (the “Note Investors”), and, pursuant to the SPA, sold to the Note Investors Senior Secured Convertible Notes (the “Convertible Notes”) with an aggregate initial principal amount of approximately \$9.2 million and a conversion price of \$3.70. The Convertible Notes were sold with an aggregate cash origination fee of approximately \$200,000, and we issued a total of approximately 28,500 shares of our common stock to the Note Investors as an additional origination fee. The Convertible Notes will accrue interest at the rate of 9.75% per annum, which will be payable in cash or, for some or all of the first five interest payments, in shares of our common stock at the Company’s option, on the last day of each calendar quarter before the maturity date and on the maturity date. The maturity date of the Convertible Notes is March 31, 2025.

During the quarter ended September 30, 2022, a holder of a Convertible Note converted the full principal amount of \$50,000 and accrued interest of \$406 into 13,649 shares of our common stock.

In the three and nine months ended September 30, 2022, the Company issued 74,683 and 191,579 shares of common stock for approximately \$223,000 and \$474,000, respectively of interest related to the Convertible Notes.

In connection with the issuance of the Convertible Notes, the Company issued 142,690 common stock warrants to the broker and its representatives with an estimated grant date fair value of approximately \$449,000 which has been recorded as a reduction in the carrying value of the Convertible Notes.

The Company also has a note outstanding to the Stern Trust in the amount of \$662,000 that earns interest at 10% per annum, which at the election of the Stern Trust can be paid in shares of common stock at a conversion price of \$6.00 (the “Stern Note”). Theodore Stern, the former Trustee of the Stern Trust was formerly a director of the Company. The maturity date of the Stern Note was previously February 29, 2022 and the Stern Trust and the Company have mutually agreed to extend the due date to December 31, 2022. The Stern Trust shall have the right at its sole option to extend the maturity date for a further six months after December 31, 2022, by service of written notice upon the Borrower at any time on or before December 31, 2022.

The following is a summary of the convertible notes payable outstanding as of September 30, 2022 (unaudited):

| | |
|--|---------------------|
| 10.0% convertible note due December 31, 2022 | \$ 662,000 |
| 9.75% convertible notes due March 31, 2025 | 9,126,224 |
| less: | |
| Unamortized debt discount expense | (226,337) |
| Unamortized debt issuance expense | (1,200,133) |
| | <u>\$ 8,361,754</u> |

Future maturities of convertible notes payable as of September 30, 2022:

| | |
|------|---------------------|
| 2022 | \$ 662,000 |
| 2025 | 9,126,224 |
| | <u>\$ 9,788,224</u> |

NOTE 7 – RELATED PARTY TRANSACTIONS

Convertible Notes Payable

During the nine months ended September 30, 2022, two Directors, an affiliate of one of such Directors and one Executive Officer invested in \$1.2 million of the Convertible Notes issued. See Note 6. In connection with the payment of interest on the Convertible Notes, 20,761 shares were issued to two Directors and an affiliate of one of the Directors.

Issuance of Common Stock

Two Directors and one Executive Officer invested \$0.2 million in the common stock offering in the nine months ended September 30, 2022. See Note 8.

Executive Officers

On April 25, 2022, Stuart Stoller indicated his intention to resign as Chief Financial Officer of the Company in connection with his planned retirement. The resignation and retirement had an effective date of June 17, 2022 at which time Annie Pham was appointed Chief Financial Officer in his place. In connection with his retirement, the Board of Director's approved the vesting of approximately 122,222 stock options which were unvested as of June 17, 2022. Additionally, the Board of Directors approved a consulting arrangement for Mr. Stoller to provide transitional services.

On April 25, 2022, Ms. Pham and the Company entered an Offer Letter pursuant to which Ms. Pham agreed to serve as Chief Financial Officer commencing June 20, 2022. Ms. Pham receives an annual salary of \$275,000. The Company agreed to provide a bonus of 40% of the base salary (pro rated for 2022) based on achievement of performance milestones, calculated and payable in accordance with the corporate milestones approved by the Board for the year 2022. For subsequent fiscal years the bonus shall be subject to performance targets to be mutually agreed with the Compensation Committee of the Board. In addition, Ms. Pham received a signing bonus in the amount of \$25,000, which is fully refundable to the Company if Ms. Pham leaves her employment voluntarily or is terminated for cause prior to the first anniversary of the commencement of employment. Upon commencing employment, Ms. Pham was granted an option to acquire 350,000 shares of common stock at an exercise price of \$2.41 and an exercise period of ten years subject to certain performance vesting requirements

NOTE 8 – STOCKHOLDER'S EQUITY

Common Stock

During the nine months ended September 30, 2022, shares of common stock were issued as a result of the following transactions:

- On March 18 and March 21, 2022, the Company entered into Subscription Agreements (the "Subscription Agreements") with an accredited investor and certain members of authID's management team (the "PIPE Investors"), and, pursuant to the Subscription Agreements, sold to the PIPE Investors a total of 1,063,514 shares of our common stock at prices of \$3.03 per share for an outside investor and \$3.70 per share for the management investors (the "PIPE"). The aggregate gross proceeds from the PIPE are approximately \$3.3 million.
- The Company issued total of 28,496 shares of our common stock to the Note Investors as an additional origination fee. Additionally, the Company issued 191,579 shares of common stock for approximately \$474,000 of interest owed from the effective date of the Convertible Notes until September 30, 2022.

On March 21, 2022, the Company entered into a Facility Agreement with a current shareholder and noteholder of the Company, pursuant to which the shareholder agreed to provide the Company a \$10.0 million unsecured standby letter of credit facility. Pursuant to the Credit Facility, the Company paid a facility commitment fee of 100,000 shares of our common stock with a fair market value of \$3.03 per share upon the effective date of the Credit Facility.

- Certain warrant, stock option and convertible note holders exercised their respective warrants and stock options and conversion right and were issued approximately 236,805 shares of our common stock.

During the nine months ended September 30, 2021, shares of common stock were issued as a result of the following transactions:

- On August 26, 2021, the Company completed the Offering of 1,642,856 shares of its common stock at a public offering price of \$7.00 per share, including 214,285 shares sold upon full exercise of the underwriter's option to purchase additional shares, for gross proceeds of approximately \$11.5 million, before deducting underwriting discounts and offering expenses.
- In the first quarter of 2021, convertible notes totaling \$120,000 and a portion of their accrued interest at the option of the noteholders were converted into approximately 33,000 shares of common stock of the Company.
- Additionally, during the three and nine months ended September 30, 2021, the Company received conversion notices from (i) the Stern Trust converting the principal amount, repayment premium and interest in the amount of approximately \$3.5 million payable under the Restated Stern Note into approximately 561,000 shares of common stock, (ii) the 8% Note Investors converting principal and interest in the amount of approximately \$0.4 million into approximately 180,000 shares of common stock and (iii) the 2020 Note Investors converting principal, repayment premium and interest in the amount of approximately \$2.5 million into approximately 398,000 shares of common stock. The Stern Trust is owed approximately \$0.7 million in interest under the Restated Stern Note, which has not been converted and remains outstanding. As a result, a total of approximately \$6.4 million of Company indebtedness was converted and the Company issued approximately 1,138,000 shares of common stock in the aggregate.
- Certain warrant and stock option holders exercised their respective warrants and stock options by means of the cashless exercise feature and were issued approximately 549,000 common shares of the Company.

Warrants

The following is a summary of the Company's warrant activity for the nine months ended September 30, 2022:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Life |
|-----------------------------------|-----------------------------|--|--|
| Outstanding at December 31, 2021 | 1,403,610 | \$ 4.61 | 3.0 years |
| Granted | 142,690 | \$ 3.70 | 5.0 years |
| Exercised/cancelled | (278,612) | \$ 4.13 | 0.1 years |
| Outstanding at September 30, 2022 | <u>1,267,688</u> | <u>\$ 4.61</u> | 3.1 years |

Stock Options

The Company determined the grant date fair value of options granted for the nine months ended September 30, 2022, using the Black Scholes Method and the following assumptions:

| | |
|---------------------|------------|
| Expected volatility | 123-127% |
| Expected term | 5 years |
| Risk free rate | 2.14-3.75% |
| Dividend rate | 0.00% |

Activity related to stock options for the nine months ended September 30, 2022, is summarized as follows:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contractual Term (Yrs.) | Aggregate Intrinsic Value |
|--------------------------------------|---------------------|--|---|---------------------------------|
| Outstanding as of December 31, 2021 | 8,910,994 | \$ 4.50 | 7.5 | \$ 67,488,214 |
| Granted | 1,351,337 | \$ 2.37 | 10.0 | - |
| Exercised | (281,031) | \$ 3.28 | 8.8 | - |
| Forfeited/cancelled | (86,113) | \$ 6.63 | 7.9 | - |
| Outstanding as of September 30, 2022 | 9,895,187 | \$ 6.07 | 6.5 | \$ 2,516,245 |
| Exercisable as of September 30, 2022 | 5,274,760 | \$ 5.65 | 4.4 | \$ 2,250,119 |

The following table summarizes stock option information as of September 30, 2022:

| Exercise Price | Outstanding | Contractual Life (Yrs.) | Exercisable |
|-------------------|-------------|----------------------------|-------------|
| \$0.03 - \$4.00 | 4,636,149 | 5.5 | 3,095,020 |
| \$4.01 - \$7.00 | 151,667 | 3.8 | 151,667 |
| \$7.01 - \$10.00 | 3,416,135 | 8.6 | 808,907 |
| \$10.01 - \$15.97 | 1,691,236 | 5.2 | 1,219,166 |
| | 9,895,187 | 6.5 | 5,274,760 |

During the nine months ended September 30, 2022, the Company recognized approximately \$6,727,000 of stock option based compensation expense of which approximately \$2,214,000 relates to market condition-based awards of directors and officers. As of September 30, 2022, there was approximately \$11,835,000 of unrecognized compensation costs related to stock options outstanding that will be expensed through 2026.

NOTE 9 – DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

The Board of Directors of authID considers it in the best interests of the Company to focus its business activities on providing biometric authentication products and services by means of our proprietary Verified platform. Accordingly, on May 4, 2022, the Board approved a plan to exit from certain non-core activities comprising the MultiPay correspondent bank, payments services in Colombia and the Cards Plus cards manufacturing and printing business in South Africa.

Cards Plus business in South Africa

The financial statements of Cards Plus are classified as a discontinued operation and an asset held for sale, as all required classification criteria under appropriate accounting standards were met as of June 30, 2022.

On August 29, 2022, the Company completed the sale of Cards Plus for a price of \$300,000 of which \$150,000 was received and the remaining balance of \$150,000 recorded in other current asset is expected to be received within one year, less \$3,272 in costs to sell (net), and recognized a loss of \$188,247 from the transaction. The following table summarizes the assets and liabilities of the Cards Plus sale and the consideration received (unaudited):

| | <u>Amount</u> |
|---|----------------------------|
| Carrying value of net assets sold: | |
| Cash | \$ 299,505 |
| Accounts receivable | 61,879 |
| Inventory | 231,955 |
| Other current assets | 1,490 |
| Total current assets | <u>594,829</u> |
| Property and equipment | 21,127 |
| Total assets | <u>615,956</u> |
| Accounts payable | 76,094 |
| Accrued expenses | 43,728 |
| Deferred revenue | 11,159 |
| Total current liabilities | <u>130,981</u> |
| Net assets sold | <u>\$ 484,975</u> |
| Sale Consideration on disposition of net assets: | |
| Proceeds | \$ 300,000 |
| Legal fee | (5,511) |
| Write off net payable with CP | 2,239 |
| Net Consideration | <u>296,728</u> |
| Net loss on sale of a discontinued operation | <u>\$ (188,247)</u> |

MultiPay business in Colombia

The Company is exiting the MultiPay business in Colombia in an orderly fashion, honoring our obligations to employees, customers and under applicable laws and regulations. We maintain our customer support and operations team in Bogota, which performs essential functions to support the global operations of our Verified product.

As of September 30, 2022, all impacted employees left the Company. The Company also paid to each employee their severance packages under MultiPay's retention plan and obligations under the appropriate statutes.

As of September 30, 2022, MultiPay is working with a major customer to implement a transition plan to provide an essential service for certain bill pay services which will likely result in the sale of the Company's proprietary software as well as the assumptions of certain expenses.

The Company expects to incur costs associated with the proposed exit of the MultiPay business which include approximately \$203,000 for payment to employees and consultants including statutory obligations and certain contingent retention bonuses of which \$113,000 was already paid during the quarter ended September 30, 2022 and the remaining balance of \$90,000 is in accrual; and approximately \$41,000 for accelerated amortization (non-cash) for certain technology licenses.

MultiPay has accelerated the depreciation of certain assets with the effective date of the announcement to reflect the estimated remaining useful life.

The operations of Cards Plus and MultiPay for the three and nine months ended September 30, 2022 and September 30, 2021 on a consolidated basis are below (unaudited):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|---------------------|--|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| <u>Discontinued Operations Total Revenues, net</u> | <u>\$ 446,643</u> | <u>\$ 359,000</u> | <u>\$ 1,468,199</u> | <u>\$ 1,230,949</u> |
| Operating Expenses: | | | | |
| Cost of sales | 145,205 | 121,184 | 665,269 | 492,412 |
| General and administrative | 276,866 | 472,336 | 1,003,003 | 1,107,961 |
| Impairment loss | - | - | 143,698 | - |
| Depreciation and amortization | (6,749) | 30,286 | 33,025 | 75,270 |
| Total operating expenses | <u>415,322</u> | <u>623,806</u> | <u>1,844,995</u> | <u>1,675,643</u> |
| Income (Loss) from operations | <u>31,321</u> | <u>(264,806)</u> | <u>(376,796)</u> | <u>(444,694)</u> |
| Other Income (Expense): | | | | |
| Other income | 12,792 | 1,851 | 20,821 | 15,113 |
| Interest expense, net | - | (1,144) | (364) | (3,781) |
| Other income, net | <u>12,792</u> | <u>707</u> | <u>20,457</u> | <u>11,332</u> |
| Income (Loss) before income taxes | 44,113 | (264,099) | (356,339) | (433,362) |
| Income tax expense | <u>(468)</u> | <u>(1,119)</u> | <u>(7,046)</u> | <u>(3,714)</u> |
| Income (Loss) from discontinued operations | 43,645 | (265,218) | (363,385) | (437,076) |
| Loss from sale of discontinued operations | <u>(188,247)</u> | <u>-</u> | <u>(188,247)</u> | <u>-</u> |
| Total loss from discontinued operations | <u>\$ (144,602)</u> | <u>\$ (265,218)</u> | <u>\$ (551,632)</u> | <u>\$ (437,076)</u> |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|---------------------|--|---------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Cards Plus | | | | |
| Total Revenues, net | \$ 380,372 | \$ 276,335 | \$ 1,263,672 | \$ 955,770 |
| Operating Expenses: | | | | |
| Cost of sales | 145,205 | 121,184 | 665,269 | 492,412 |
| General and administrative | 21,539 | 156,341 | 412,243 | 443,318 |
| Impairment loss | - | - | 143,698 | - |
| Depreciation and amortization | (1,482) | 23,160 | 24,415 | 58,393 |
| Total operating expenses | <u>165,262</u> | <u>300,685</u> | <u>1,245,625</u> | <u>994,123</u> |
| Income (loss) from operations | <u>215,110</u> | <u>(24,350)</u> | <u>18,047</u> | <u>(38,353)</u> |
| Other Income (Expense): | | | | |
| Other income | 2,103 | 1,848 | 8,919 | 5,299 |
| Interest expense, net | - | (1,144) | (364) | (3,781) |
| Other income, net | <u>2,103</u> | <u>704</u> | <u>8,555</u> | <u>1,518</u> |
| Income (Loss) before income taxes | 217,213 | (23,646) | 26,602 | (36,835) |
| Income tax expense | - | - | (4,681) | - |
| Income (Loss) from discontinued operations | 217,213 | (23,646) | 21,921 | (36,835) |
| Loss from sale of discontinued operations | (188,247) | - | (188,247) | - |
| Total income (loss) from discontinued operations | <u>\$ 28,966</u> | <u>\$ (23,646)</u> | <u>\$ (166,326)</u> | <u>\$ (36,835)</u> |
| MultiPay | | | | |
| Total Revenues, net | \$ 66,271 | \$ 82,665 | \$ 204,527 | \$ 275,179 |
| Operating Expenses: | | | | |
| General and administrative | 255,327 | 315,995 | 590,760 | 664,643 |
| Depreciation and amortization | (5,267) | 7,126 | 8,610 | 16,877 |
| Total operating expenses | <u>250,060</u> | <u>323,121</u> | <u>599,370</u> | <u>681,520</u> |
| Loss from operations | <u>(183,789)</u> | <u>(240,456)</u> | <u>(394,843)</u> | <u>(406,341)</u> |
| Other Income: | | | | |
| Other income | 10,689 | 3 | 11,902 | 9,814 |
| Other income | <u>10,689</u> | <u>3</u> | <u>11,902</u> | <u>9,814</u> |
| Loss before income taxes | (173,100) | (240,453) | (382,941) | (396,527) |
| Income tax expense | <u>(468)</u> | <u>(1,119)</u> | <u>(2,365)</u> | <u>(3,714)</u> |
| Loss from discontinued operations | <u>\$ (173,568)</u> | <u>\$ (241,572)</u> | <u>\$ (385,306)</u> | <u>\$ (400,241)</u> |

As a result of meeting the discontinued operations/assets held for sale criteria for Cards Plus and the MultiPay operations, the assets and liabilities have been reclassified as assets held for sale as of the respective balance sheet date as follows:

| | September 30, 2022 (unaudited) | December 31, 2021 |
|--|---|------------------------------|
| Discontinued Operations Current Assets: | | |
| Cash | \$ 11,342 | \$ 270,707 |
| Accounts receivable, net | 70,070 | 110,977 |
| Inventory | - | 153,149 |
| Other current assets | - | 94,919 |
| Current assets held for sale | <u>81,412</u> | <u>629,752</u> |
| Noncurrent Assets: | | |
| Property and equipment, net | 28,857 | 93,132 |
| Intangible assets | - | 153,004 |
| Other assets | - | 66,695 |
| Noncurrent assets held for sale | <u>28,857</u> | <u>312,831</u> |
| Total assets held for sale | <u>\$ 110,269</u> | <u>\$ 942,583</u> |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ 100,368 | \$ 235,348 |
| Deferred revenue | - | 47,823 |
| Notes payable obligation, current portion | - | 1,579 |
| Capital lease obligation, current portion | - | 10,582 |
| Total liabilities held for sale | <u>\$ 100,368</u> | <u>\$ 295,332</u> |
| | September 30, 2022 (unaudited) | December 31, 2021 |
| Cards Plus Current Assets: | | |
| Cash | \$ - | \$ 182,518 |
| Accounts receivable, net | - | 88,235 |
| Inventory | - | 153,149 |
| Other current assets | - | 52,678 |
| Current assets held for sale | <u>-</u> | <u>476,580</u> |
| Noncurrent Assets: | | |
| Property and equipment, net | - | 24,619 |
| Intangible assets | - | 153,004 |
| Noncurrent assets held for sale | <u>-</u> | <u>177,623</u> |
| Total assets held for sale | <u>\$ -</u> | <u>\$ 654,203</u> |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | \$ - | \$ 122,725 |
| Deferred revenue | - | 47,823 |
| Notes payable obligation, current portion | - | 1,579 |
| Capital lease obligation, current portion | - | 10,582 |
| Total liabilities held for sale | <u>\$ -</u> | <u>\$ 182,709</u> |

| | September 30, 2022 | December 31 2021 |
|---------------------------------------|-------------------------------|-----------------------------|
| | (unaudited) | |
| MultiPay Current Assets: | | |
| Cash | \$ 11,342 | \$ 88,189 |
| Accounts receivable, net | 70,070 | 22,742 |
| Other current assets | - | 42,241 |
| Current assets held for sale | <u>81,412</u> | <u>153,172</u> |
| Noncurrent Assets: | | |
| Property and equipment, net | 28,857 | 68,513 |
| Other assets | - | 66,695 |
| Noncurrent assets held for sale | <u>28,857</u> | <u>135,208</u> |
| Total assets held for sale | <u>\$ 110,269</u> | <u>\$ 288,380</u> |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 100,368 | 112,623 |
| Total liabilities held for sale | <u>\$ 100,368</u> | <u>\$ 112,623</u> |

As a result of meeting the discontinued operations/assets held for sale criteria for Cards Plus and the MultiPay operations, the cash flow activity related to discontinued operations is presented separately on the statement of cash flows as summarized below (unaudited):

| | Nine Months Ended September 30, | |
|--|--|--------------------|
| | 2022 | 2021 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (363,385) | \$ (437,076) |
| Adjustments to reconcile net loss with cash flows from operations: | | |
| Depreciation and amortization expense | 42,364 | 83,122 |
| Impairment of intangible assets | 143,701 | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (14,288) | 427,034 |
| Net investment in direct financing lease | - | (7,257) |
| Other current assets | 186,370 | 81,418 |
| Inventory | (78,806) | 47,480 |
| Accounts payable and accrued expenses | (16,092) | (228,912) |
| Deferred revenue | (36,663) | (47,494) |
| Adjustments relating to discontinued operations | <u>226,586</u> | <u>355,391</u> |
| Net Cash flows from discontinued operations | <u>\$ (136,799)</u> | <u>\$ (81,685)</u> |

Notes to Financial Statements – Discontinued Operations

Inventories

Inventory of plastic/ID cards, digital printing material, which are held by Cards Plus Pty Ltd., are at the lower of cost (using the average method) or market. The Plastic/ID cards and digital printing material are used to provide plastic loyalty ID and other types of cards.

Inventories as of December 31, 2021, consist of cards inventory. As of December 31, 2021, the Company recorded an inventory valuation allowance of approximately \$20,000 to reflect net realizable value of the cards inventory. Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period.

Inventories decreased to zero as the Company completed the sale of Cards Plus business on August 29, 2022.

Revenue Recognition

Cards Plus – The Company recognizes revenue for the design and production of cards at the point in time when products are shipped, or services have been performed due to the short-term nature of the contracts. Additionally, the cards produced by the Company have no alternative use and the Company has an enforceable right to payment for work performed should the contract be cancelled. As of December 31, 2021, Cards Plus had approximately \$48,000 of contract liability from payments received in advance that will be earned in future periods. Contract liability decreased to zero as the Company completed the sale of Cards Plus business on August 29, 2022.

MultiPay 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, MultiPay also sells certain equipment from time to time for which revenue is recognized upon delivery to the customer.

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.

Lease Obligation

Cards Plus 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 was amortized on a straight-line basis over its lease term including the last payment (61 payments) and ownership transferred to the Company. The lease was fully paid off.

Impairment loss

During the three and nine months ended September 30, 2022, Cards Plus recorded an impairment loss of zero and approximately \$143,000, respectively associated with its intangible assets.

Leases

In October 2021, MultiPay entered into a one-year lease for approximately \$2,900 per month in Bogota, Colombia. MultiPay terminated the lease as of September 30, 2022.

Cards Plus leased space for its operations in South Africa. The facility was rented on a month-to-month basis with monthly rent of approximately \$8,000 through August 29, 2022 as the Company completed the sale of Cards Plus business.

NOTE 10 – 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

The Company rented office space in Long Beach, New York at a monthly cost of \$2,500. The agreement was month to month and was terminated on July 31, 2022. The agreement was between the Company and Bridgeworks LLC, an entity principally owned by Mr. Beck, a former CEO and Board Member along with his family.

In July 2022, the Company signed a new lease agreement for one year and moved its headquarters to Denver, Colorado. The office monthly lease cost approximates \$1,500 per month.

For the nine months ended September 30, 2022, lease expense was approximately \$55,000 inclusive of short-term leases of which \$25,000 was for continuing operations and \$30,000 was for discontinued operations.

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

Overview

authID Inc. is a leading provider of secure, authentication solutions delivered by our easy to integrate Verified platform. Our Verified platform that delivers Human Factor Authentication™, binds strong passwordless authentication with biometric identity, which offers our customers a streamlined path to zero trust architecture. Verified FIDO2 passwordless authentication is certified by the FIDO Alliance to be compliant and interoperable with FIDO specifications.

The explosive growth in online and mobile commerce, telemedicine, remote working and digital activities of all descriptions is self-evident to everyone who lived through the Covid 19 pandemic since 2020. Identity theft, phishing attacks, spear-phishing, password vulnerabilities, account takeovers, benefits fraud - it seems like these words have entered our daily lexicon overnight. These are significant impediments to the operations and growth of any business or organization, and dealing with the risks and consequences of these criminal activities has created significant friction in both time, cost and lost opportunity. Consider all the outdated methods that organizations have implemented in order to prevent fraud. The requests to receive and enter one-time passwords, that can be easily hijacked. The vulnerable security questions you get asked – whether on-line or when reaching out to a call center – what was your first pet’s name? who was your best friend in high school? These steps all add up to friction, making it difficult for consumers to login, transact and execute daily tasks, with little added protection from fraud. Surely there is a better way to address these challenges? authID.ai believes there is.

authID provides secure, facial biometric, identity verification, and strong customer authentication. We maintain a global, cloud-based Verified platform for our enterprise customers to enable their users, or employees to easily verify and authenticate their identity through a mobile device or desktop (with camera) of their choosing (without requiring dedicated hardware, or authentication apps). We can help our customers establish a proven identity, creating a root of trust that ensures the highest level of assurance for our passwordless login and step-up verification products. Our system enables participants to consent to transactions using their biometric information with a digitally signed authentication response, embedding the underlying transaction data and each user’s identity attributes within every electronic transaction message processed through our platform.

Digital transformation across all market segments requires trusted identity. Our identity platform offers innovative solutions that are flexible, fast and easy to integrate and offer seamless user experiences. authID’s products help advance digital transformation efforts without the fear of identity fraud, while delivering frictionless user experiences. We believe that it is also essential that electronic transactions have an audit trail, proving that the identity of the individual was duly authenticated. Our platform provides biometric and multi-factor identity software, which are intended to establish, authenticate and verify identity across a wide range of use cases and electronic transactions.

authID’s products focus on the broad requirement for enabling frictionless commerce by allowing an entity to instantly “Recognise their Customer”, their Employee or their Member. Organizations of all descriptions require cost-effective and secure means of growing their business while mitigating identity fraud. We aim to offer our enterprise customers products that can be integrated easily into each of their business and organizational operations, in order to facilitate their adoption and enhance the end user customer experience.

Our management believes that some of the advantages of our Verified Platform approach are the ability to leverage the platform to support a variety of vertical markets and the adaptability of the platform to the requirements of new markets and new products requiring cost-effective, secure, and configurable mobile solutions. Our target markets include cybersecurity, workforce, banking, fintech and other disrupters of traditional commerce, small and medium sized businesses, and system integrators working with government and Fortune 1000 enterprises. At its core, the Company’s offering, combining its proprietary and acquired biometric and artificial intelligence technologies (or AI), is intended to facilitate frictionless commerce, whether in the physical or digital world. The Company intends to increase its investment in developing, patenting and acquiring the various elements necessary to enhance the platform, which are intended to allow us to achieve our goals. One of the principal intended areas of investment is to enhance and expand our use of artificial intelligence in proprietary software, that we believe will increase our value to enterprise customers and stockholders alike.

authID is dedicated to developing advanced methods of protecting consumer privacy and deploying ethical and socially responsible AI. authID is developing a culture that proactively encourages and rewards our employees for considering the ethical implications of our products. We believe that a proactive commitment to ethical AI presents a strong business opportunity for authID and will enable us to bring more accurate products to market more quickly and with less risk to better serve our global user base. Our methods to achieve ethical AI include engaging the users of our products with informed consent, prioritizing the security of our user's personal information, considering and avoiding potential bias in our algorithms, and monitoring of algorithm performance in our applications.

The Company also owned an entity in South Africa, Cards Plus and owns an entity in Colombia, MultiPay. On May 4, 2022, the Board approved a plan to exit from certain non-core activities comprising the MultiPay correspondent bank, payments services in Colombia and the Card Plus cards manufacturing and printing business in South Africa. On August 29, 2022 the Company completed the sale of Cards Plus business. See Discontinued Operations.

The Company was incorporated in the State of Delaware on September 21, 2011, and changed our name to authID Inc. on July 18, 2022. In order to better align the branding of our Company with our future focus and goals on June 14, 2021 we changed our business name to "authID.ai".

Our Common Stock is traded on the Nasdaq Capital Market under the trading symbol "AUID". Our corporate headquarters have been relocated to 1385 S. Colorado Blvd., Building A Suite 322, Denver, CO 80222 and our main phone number remains as is (516) 274-8700. We maintain a website at www.authID.ai. The information contained on, or that can be accessed through, our websites is not incorporated by reference into this prospectus and is intended for informational purposes only.

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.

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 Loss from Continuing Operations to Adjusted EBITDA Continuing Operations:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------------|------------------------------------|-----------------------|
| | 2022 | 2021 | 2022 | 2021 |
| Loss from continuing operations | \$ (6,190,347) | \$ (4,933,687) | \$ (17,656,872) | \$ (10,309,438) |
| Addback: | | | | |
| Interest expense | 437,301 | 29,577 | 931,205 | 580,928 |
| Other expense (income) | 42,148 | (491,643) | 38,908 | (971,799) |
| Severance cost | - | - | 150,000 | - |
| Depreciation and amortization | 213,049 | 288,731 | 673,882 | 868,166 |
| Taxes | (7,052) | (2,393) | 1,048 | 4,554 |
| Stock compensation | 2,227,764 | 2,533,943 | 6,726,871 | 4,795,069 |
| Adjusted EBITDA continuing operations (Non-GAAP) | <u>\$ (3,277,137)</u> | <u>\$ (2,575,472)</u> | <u>\$ (9,134,958)</u> | <u>\$ (5,032,520)</u> |

Adjusted EBITDA loss for the three and nine months ended September 30, 2022, increased by approximately \$0.7 million and \$4.1 million, respectively as the Company continues its investment in people, technology and marketing.

Three and Nine Months Ended September 30, 2022 and September 30, 2021 – Continuing Operations

Revenues, net

During the three and nine months ended September 30, 2022, the Company revenues from Verified software license were approximately \$30,000 and \$117,000, respectively, compared to approximately \$12,000 and \$45,000 in the three and nine months ended September 30, 2021, respectively. Verified software license revenue increased as we acquired new customers.

Legacy authentication services revenues were zero and \$145,000, respectively, during the three and nine months ended September 30, 2022 compared to \$157,000 and \$419,000 for the three and nine months ended September 30, 2021, respectively. Revenue from Legacy authentication services dropped significantly due to the loss of a large customer that decommissioned a legacy product offering as of April 1, 2022.

General and administrative expenses

During the three months ended September 30, 2022 general and administrative expenses decreased by approximately \$0.6 million compared to the three months ended September 30, 2021. During the nine months ended September 30, 2022, general and administrative expenses increased by approximately \$3.1 million mostly due to the higher non-cash stock-based charges, higher compensation, marketing, and professional fee costs as the Company makes investment in people and marketing its product offering.

Research and development expenses

During the three and nine months periods ended September 30, 2022 compared to September 30, 2021, research and development expenses increased by approximately \$0.8 million and \$2.9 million, respectively, as the Company increased staffing and third party resources as it continues to enhance its Verified product.

Depreciation and amortization expense

During the three and nine months ended September 30, 2022 compared to September 30, 2021, depreciation and amortization expense was approximately \$0.1 and \$0.2 million, respectively, less as the Company reduced the value of certain legacy business asset values.

Interest expense

Interest expense increased during the three and nine-month periods ended September 30, 2022 compared to September 30, 2021 by \$408,000 and \$350,000, respectively, as the Company issued \$9.2 million Convertible Notes in March 2022.

Discontinued operations

The Board of Directors of authID considers it in the best interests of the Company to focus its business activities on providing biometric identity verification products and services by means of our proprietary Verified platform. Accordingly, on May 4, 2022, the Board approved a plan to exit from certain non-core activities comprising the MultiPay correspondent bank, payment services in Colombia and the Cards Plus cards manufacturing and printing business in South Africa.

Cards Plus business in South Africa

On August 29, 2022, the Company completed the sale of Cards Plus business for a price of \$300,000, less \$3,272 in costs to sell (net), and recognized a loss of \$188,247 from the transaction. Of the \$300,000 gross proceeds, \$150,000 was paid on closing and the remaining \$150,000 is expected to be paid in a year which is currently recorded in other current assets as of September 30, 2022.

MultiPay business in Colombia

The Company is exiting the MultiPay business in Colombia in an orderly fashion, honoring our obligations to employees, customers and under applicable laws and regulations. We plan to maintain our customer support and operations team in Bogota, which performs essential functions to support the global operations of our Verified product.

As of September 30, 2022 all impacted employees left the Company and the Company also paid each employee their compensation entitlements and severance packages under the MultiPay retention plan and obligations under the appropriate statutes.

As of September 30, 2022, the Company is working with a major customer to implement a transition plan to provide an essential service for certain bill pay services which will probably result in the leasing and sale of certain MultiPay's proprietary software as well as the assumption by the Customer of certain expenses.

In the three and nine months ended September 30, 2022, Cards Plus revenue was approximately \$380,000 and \$1,264,000, respectively. MultiPay revenue in those periods was approximately \$66,000 and \$205,000, respectively. Cards Plus had income of approximately \$29,000 during the two months ended August 29, 2022 (the closing date of the sale of Cards Plus business) and losses of approximately \$166,000 during the eight months ended August 29, 2022, respectively. MultiPay had losses of approximately \$174,000 and \$385,000, respectively, during the three and nine months ended September 30, 2022.

The financial statements of Cards Plus and MultiPay have been classified as discontinued operations as of June 30, 2022, as all required classification criteria under appropriate accounting guidance were met.

Liquidity and Capital Resources

The Company has approximately \$7.1 million of cash on hand and approximately \$5.4 million of working capital as of September 30, 2022, as the fund raise in March 2022 provided cash of approximately \$11.4 million.

The Company also has available a \$10.0 million unsecured working capital facility which has no borrowings outstanding as of September 30, 2022.

Cash used in operating activities was approximately \$9.9 million and \$5.5 million in the nine months ended September 30, 2022 and 2021, respectively.

Cash provided by financing activities in the three and nine months ended September 30, 2022, was as follows:

- The Company entered into an SPA with the Note Investors, and, pursuant to the SPA, sold to the Note Investors the Convertible Notes with an aggregate initial principal amount of approximately \$9.2 million and a conversion price of \$3.70 per share. The Convertible Notes were sold with an aggregate cash origination fee of approximately \$200,000, and we issued a total of approximately 28,500 shares of our common stock to the Note Investors as an additional origination fee.
- The Company entered into Subscription Agreements with the PIPE Investors, and, pursuant to the Subscription Agreements, sold to the PIPE Investors a total of 1,063,514 shares of our common stock at prices of \$3.03 per share for an outside investor and \$3.70 per share for the management investors. The aggregate gross proceeds from the PIPE are approximately \$3.3 million.

Additionally, the Company entered into a Credit Facility with an accredited investor, who is both a current shareholder of the Company and a Note Investor, pursuant to which the accredited investor agreed to provide a \$10.0 million unsecured standby line of credit facility that will rank behind the Convertible Notes and may be drawn down in several tranches, subject to certain conditions described in the Credit Facility. Pursuant to the Credit Facility, the Company paid the lender a facility commitment fee of 100,000 shares of our common stock upon the effective date of the Credit Facility Agreement.

The Company may need additional capital in the future but because of the above financing activities, we believe we have sufficient funds to operate our business through December 31, 2023.

Covid 19

Covid-19 emerged globally in December 2019, and it has been declared a pandemic. Covid-19 is still impacting customers, business, results and financial condition throughout the world. The Company's day-to-day operations have been impacted differently depending on geographic location and services that are being performed.

Recently we have seen our business opportunities develop more slowly as business partners and potential customers include Covid-19 considerations and working remotely can cause a delay in decision making and finalization of negotiations and agreements.

Ukraine

The ongoing war in Ukraine may impact the Company and its operations in a number of different ways, which are yet to be fully assessed and are therefore causing uncertainty. The Company works with third party sub-contractors for outsourced services, including software engineering and development, some of whom are based in Eastern Europe, including Russia and Ukraine. The Company also works with outsourced engineers and developers and third-party providers in other parts of the world, including the United States, India, and South America. While the continuing impact of this conflict and the response of the United States and other countries to it by means of trade and economic sanctions, or other actions is still unknown, any disruption of our ability to work with such contractors caused by this conflict could require the Company to seek alternative sub-contractors at short notice, which may give rise to additional costs and delays in delivering software and product upgrades.

The uncertainty impacting and potential interruption in energy and other supply chains resulting from military hostilities in Europe and the response of the United States and other countries to it by means of trade and economic sanctions, or other actions, may give rise to increases in costs of goods and services generally and may impact the market for our products as prospective customers reconsider additional capital expenditure, or other investment plans until the situation becomes clearer. On the other hand, the threat of increased cyber-attacks from Russia or other countries may prompt enterprises to adopt additional security measures such as those offered by the Company.

For so long as the hostilities continue and perhaps even thereafter as the situation in Europe unfolds, we may see increased volatility in financial markets which may make it more difficult for the Company to raise additional capital at the time when it needs to do so, or for financing to be available on acceptable terms. All or any of these risks separately, or in combination, could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

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.

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

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 September 30, 2022, 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

There were no changes in our internal control over financial reporting (as that term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the nine months ended September 30, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control 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, 2021. There has been no material change in our risk factors from those previously discussed in the Annual Report on Form 10-K. We operate in a business environment that is sensitive to political, economic and regulatory uncertainty, including with respect to cybersecurity and infrastructure investment, all of which may also be compounded by any future global impact from the COVID-19 pandemic, the continuing war in Ukraine and inflationary pressures, rising energy prices and increases in interest rates (see “Covid 19” and “Ukraine” above).

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

On March 21, 2022, the Company entered into a Securities Purchase Agreement (“SPA”) with certain accredited investors, including certain directors of the Company or their affiliates (the “Note Investors”), and, pursuant to the SPA, sold to the Note Investors Senior Secured Convertible Notes (the “Convertible Notes”) with an aggregate initial principal amount of approximately \$9.2 million and a conversion price of \$3.70 per share. The Convertible Notes were sold with an aggregate cash origination fee of approximately \$200,000, and we issued a total of approximately 28,500 shares of our common stock to the Note Investors as an additional origination fee. The Convertible Notes will accrue interest at the rate of 9.75% per annum, which will be payable in cash or, for some or all of the first five interest payments, in shares of our common stock at the Company’s option, on the last day of each calendar quarter before the maturity date and on the maturity date. The maturity date of the Convertible Notes is March 31, 2025.

On March 18 and March 21, 2022, the Company entered into Subscription Agreements (the “Subscription Agreements”) with an accredited investor and certain members of authID’s management team (the “PIPE Investors”), and, pursuant to the Subscription Agreements, sold to the PIPE Investors a total of 1,063,514 shares of our common stock at prices of \$3.03 per share for an outside investor and \$3.70 per share for the management investors (the “PIPE”). The aggregate gross proceeds from the PIPE are approximately \$3.3 million.

Additionally, the Company entered into a Credit Facility with an accredited investor, who is both a current shareholder of the Company and a Note Investor, pursuant to which the accredited investor agreed to provide a \$10.0 million unsecured standby line of credit facility that will rank behind the Convertible Notes and may be drawn down in several tranches, subject to certain conditions described in the Credit Facility. Pursuant to the Credit Facility, the Company agreed to pay the Lender a facility commitment fee of 100,000 shares of our common stock upon the effective date of the Facility Agreement.

The gross proceeds of the sale of the Convertible Notes and the PIPE were used to pay the expenses of those offerings and to provide working capital for the Company.

The shares issued and issuable in connection with the Convertible Notes, the PIPE and the Credit Facility were subsequently registered under a resale registration statement on Form S-3.

During the nine month period ended September 30, 2022, the Company issued approximately 223,156 shares of common stock pursuant to exercises of common stock warrants and options.

The securities described herein were offered and sold pursuant to exemptions from the registration requirements of the Securities Act of 1933, as amended afforded by Section 4(a)(2) thereof and/or Rule 506 of Regulation D promulgated thereunder, for the sale of securities not involving a public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable to our operations.

ITEM 5. OTHER INFORMATION

On March 21, 2022, the Company entered into a Credit Facility with Stephen J. Garchik, who is both a current shareholder of the Company and holds Senior Secured Convertible Notes (“Garchik”), pursuant to which Garchik agreed to provide to the Company a \$10.0 million unsecured standby line of credit facility that will rank behind the Senior Secured Convertible Notes and may be drawn down in several tranches, subject to certain conditions described in the Facility Agreement. Upon request by Garchik and until the full amount due under the Credit Facility is repaid in full, the Company will provide for the nomination of one designee specified in writing by Garchik for appointment to our board of directors and for subsequent election to our board of directors and to recommend such nominee for election to our board of directors. The Company will be entitled to reject any nominee upon reasonable grounds, or the nominee may not be elected by the stockholders, in which case Garchik may nominate another person to be a director.

On April 18, 2022, Joseph Trelin, as Garchik’s designee under the Credit Facility, was appointed as a member of the Board of Directors of the Company. Except as set forth above, there is no understanding or arrangement between Mr. Trelin and any other person pursuant to which Mr. Trelin was selected as a director of the Company. Mr. Trelin does not have any family relationship with any director, executive officer or person nominated or chosen by us to become a director or an executive officer. Mr. Trelin has not had direct or indirect material interest in any transaction or proposed transaction in which the Company was or is a proposed participant exceeding \$120,000.

On April 18, 2022, Mr. Trelin entered into a letter agreement with the Company pursuant to which he was appointed as a director of the Company in consideration of (i) an initial equity award having a Black Scholes value on the date of grant of \$270,000, subject to annual vesting of one-third of the common shares over three years on the date of each Annual Meeting commencing with the 2022 Annual Meeting and (b) commencing following the Company’s 2023 Annual Meeting, assuming Mr. Trelin is re-elected to office, an annual equity award having a Black Scholes value on the date of grant of \$90,000, subject to vesting over twelve months.

On April 25, 2022, Stuart Stoller indicated his intention to resign as Chief Financial Officer of the Company in connection with his planned retirement. The resignation and retirement were effective as of June 17, 2022 at which time Annie Pham was appointed Chief Financial Officer in his place.

On April 25, 2022, Ms. Pham and the Company entered an Offer Letter pursuant to which Ms. Pham agreed to serve as Chief Financial Officer with a planned employment date commencing June 20, 2022 or such other date as may be agreed. Ms. Pham will receive an annual salary of \$275,000. The Company agreed to provide a bonus of 40% of the base salary (pro rated for 2022) based on achievement of performance milestones, calculated and payable in accordance with the corporate milestones approved by the Board for the year 2022. For subsequent fiscal years the bonus shall be subject to performance targets to be mutually agreed with the Compensation Committee of the Board. In addition, Ms. Pham received a signing bonus in the amount of \$25,000, which is fully refundable to the Company if Ms. Pham leaves her employment voluntarily or is terminated for cause prior to the first anniversary of the commencement of employment. The employment of Ms. Pham is at will and may be terminated at any time, with or without formal cause. The Company also entered an Executive Retention Agreement with Ms. Pham, pursuant to which the Company agreed to provide specified severance and bonus amounts and to accelerate the vesting on her equity awards upon termination upon a change of control or an involuntary termination, as each term is defined in the agreements. In the event of a termination upon a change of control or an involuntary termination, Ms. Pham is entitled to receive an amount equal to 100% of her base salary and the target bonus then in effect for the executive officer for the year in which such termination occurs. At the election of the executive officer, the Company will also continue to provide health related employee insurance coverage for up to twelve months, at the Company's expense. Upon commencing employment, Ms. Pham was granted an option to acquire 350,000 shares of common stock with an exercise price of \$2.41 and an exercise period of ten years subject to certain performance vesting requirements.

On July 18, 2022, the Company changed its corporate name to authID Inc., pursuant to a Certificate of Amendment to its Amended and Restated Certificate of Incorporation filed with the Delaware Secretary of State on July 13, 2022 with an effective date of July 18, 2022. The Company also amended and restated its bylaws on July 18, 2022 to reflect the name change.

On September 21, 2022, pursuant to the authorization and approval provided by the stockholders of the Company at the Annual Meeting held on September 20, 2022, the Company filed a Certificate of Amendment to its Amended and Restated Certificate of Incorporation with the Secretary of State of Delaware to decrease its authorized shares of common stock, \$0.0001 par value per share, from 1,000,000,000 shares to 250,000,000 shares.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|-----------------------|--|
| 3.1 (1) | Amended & Restated Certificate of Incorporation |
| 3.2 (17) | Amended & Restated Bylaws as of July 18, 2022 |
| 3.3 (2) | Certificate of Amendment to Amended and Restated Certificate of Incorporation effective June 14, 2021 |
| 3.4 (17) | Certificate of Amendment to Amended and Restated Certificate of Incorporation effective July 18, 2022 |
| 3.5 (18) | Certificate of Amendment to Amended and Restated Certificate of Incorporation effective September 21, 2022 |
| 4.1 (2) | Form of Stock Option |
| 4.2 (3) | Form of 8.0% Convertible Note |
| 4.3 (4) | Form of 15.0% Convertible Note |
| 4.4 (4) | Amended and Restated Promissory Note issued to The Theodore Stern Revocable Trust |
| 4.5 (5) | Paycheck Protection Program Term Note dated May 6, 2020 |
| 4.6 (6) | Paycheck Protection Program Term Note dated February 1, 2021 |
| 4.7 (14) | Description of the Registrant's Securities |
| 10.1 (2) | Form of Director Agreement |
| 10.2 (2) | Form of Indemnification Agreement |
| 10.3 (10) | Executive Retention Agreement entered between the Company and Stuart P. Stoller dated January 31, 2017 |
| 10.4 (7) | Executive Retention Agreement entered between the Company and Thomas Szoke dated January 31, 2017 |
| 10.5 (8) | 2017 Incentive Stock Plan |
| 10.7 (2) | Executive Retention Agreement entered between the Company and Thomas L. Thimot dated June 14, 2021 |
| 10.8 (2) | Executive Retention Agreement entered between the Company and Cecil N. Smith III dated June 14, 2021 |
| 10.9 (2) | Letter Agreement between the Company and Thomas L. Thimot dated June 14, 2021 |

| | |
|------------|--|
| 10.10 (2) | Letter Agreement between the Company and Cecil N. Smith III dated June 14, 2021 |
| 10.11 (11) | Letter Agreement between the Company and Phillip L. Kumnick dated as November 5, 2021 |
| 10.12 (11) | Letter Agreement between the Company and Philip R. Broenniman dated as November 5, 2021 |
| 10.13 (12) | AuthID Inc. 2021 Equity Incentive Plan |
| 10.14 (14) | Letter Agreement between AuthID Inc. and Thomas Szoke dated November 19, 2021 |
| 10.15 (13) | Form of Securities Purchase Agreement entered into between the Company and the Note Investors dated March 21, 2022. |
| 10.16 (13) | Form of Senior Secured Convertible Note issued by the Company to the Note Investors dated March 21, 2022. |
| 10.17 (13) | Security and Pledge Agreement entered into between the Company and Stephen J. Garchik as Collateral Agent dated March 21, 2022. |
| 10.19 (13) | Form of Registration Rights Agreement entered into between the Company and the Note Investors dated March 21, 2022. |
| 10.20 (13) | Facility Agreement entered into between the Company and Stephen J. Garchik dated March 21, 2022. |
| 10.21 (13) | Form of Subscription Agreement entered into between the Company and the PIPE Investors dated March 21, 2022. |
| 10.22 (15) | Letter Agreement between Joseph Trelin and AuthID Inc. dated April 18, 2022 |
| 10.23 (16) | Letter Agreement between Annie Pham and AuthID Inc. dated April 25, 2022 |
| 14.1 (9) | Code of Ethics |
| 21.1* | List of Subsidiaries |
| 31.1* | Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act |
| 31.2* | Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act |
| 32.1* | 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 |
| 101.INS | Inline XBRL Instance Document * |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document * |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document * |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document * |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document * |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document * |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101). |

* Filed herewith

- (1) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on March 23, 2021.
- (2) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on June 15, 2021.
- (3) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on December 16, 2019.
- (4) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 18, 2020.
- (5) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on May 13, 2020.
- (6) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on May 6, 2021.
- (7) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 6, 2017.
- (8) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on May 4, 2018.
- (9) Incorporated by reference to the Form 10-K Annual Report filed with the Securities Exchange Commission on July 12, 2017.
- (10) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on February 1, 2017.
- (11) Incorporated by reference to the Form 10-Q Quarterly Report filed with the Securities Exchange Commission on November 8, 2021.
- (12) Incorporated by reference to the Form S-8 Registration Statement filed with the Securities Exchange Commission on February 1, 2022.
- (13) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on March 21, 2022.
- (14) Incorporated by reference to the Form 10-K Annual Report filed with the Securities Exchange Commission on March 22, 2022.
- (15) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 19, 2022.
- (16) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on April 27, 2022.
- (17) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on July 19, 2022.
- (18) Incorporated by reference to the Form 8-K Current Report filed with the Securities Exchange Commission on September 21, 2022.

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.

authID Inc.

By: /s/ Thomas L. Thimot
Thomas L. Thimot
Chief Executive Officer
Principal Executive Officer

By: /s/ Hang Thi Bich Pham
Hang Thi Bich Pham
Chief Financial Officer,
Principal Financial and Accounting Officer

Dated: November 10, 2022

authID Inc. – List of Subsidiaries

authID Gaming Inc., a Delaware company
FIN Holdings, Inc., a Delaware company
ID Solutions Inc., a Delaware company
Innovation in Motion Inc., a Florida company
Ipsidy Enterprises Limited, a company incorporated in England & Wales
MultiPay S.A.S., a Colombian company
IDGS S.A.S., a Colombian company

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

I, Thomas Thimot, Chief Executive Officer certify that:

1. I have reviewed this quarterly report on Form 10-Q of authID 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 or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 10, 2022

/s/ Thomas Thimot

Thomas Thimot

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, Hang Thi Bich Pham Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of authID 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 or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 10, 2022

/s/ Hang Thi Bich Pham

Hang Thi Bich Pham

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 authID Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2022 as filed with the Securities and Exchange Commission (the "Report"), I, Thomas Thimot, Chief Executive Officer of the Company, and, Hang Thi Bich Pham, 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.

November 10, 2022

/s/ Thomas Thimot

Thomas Thimot
Chief Executive Officer
(Principal Executive Officer)

November 10, 2022

/s/ Hang Thi Bich Pham,

Hang Thi Bich Pham,
Chief Financial Officer
(Principal Financial and Accounting Officer)