

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2024

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 001-39332

VERIFYME, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

801 International Parkway , Fifth Floor
Lake Mary , FL
(Address of Principal Executive Offices)

23-3023677
(I.R.S. Employer
Identification No.)

32746
(Zip Code)

(585) 736-9400

(Registrant's Telephone Number, Including Area Code)

(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(s)	Name of each exchange on which Registered
Common Stock, par value \$0.001 per share	VRME	The Nasdaq Capital Market
Warrants to Purchase Common Stock	VRMEW	The Nasdaq Capital Market

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 (17 CFR 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, a 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 ☐ Accelerated filer ☐

Non-accelerated filer ☒ Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark 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: 10,176,603 shares of common stock outstanding at May 6, 2024.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VerifyMe, Inc.
Consolidated Balance Sheets
(In thousands, except share data)

	March 31, 2024 (Unaudited)	As of December 31, 2023
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents including restricted cash	\$ 2,818	\$ 3,095
Accounts receivable, net of allowance for credit loss reserve, \$ 156 and \$ 165 as of March 31, 2024 and December 31, 2023, respectively	1,197	3,017
Unbilled revenue	916	1,282
Prepaid expenses and other current assets	261	254
Inventory	32	38
TOTAL CURRENT ASSETS	5,224	7,686
PROPERTY AND EQUIPMENT, NET	\$ 212	\$ 240
RIGHT OF USE ASSET	419	468
INTANGIBLE ASSETS, NET	6,729	6,927
GOODWILL	5,309	5,384
TOTAL ASSETS	\$ 17,893	\$ 20,705
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Term note, current	\$ 500	\$ 500
Accounts payable	1,214	3,310
Other accrued expense	716	988
Lease liability- current	167	170
Contingent liability- current	195	173
TOTAL CURRENT LIABILITIES	2,792	5,141
LONG-TERM LIABILITIES		
Contingent liability, non-current	\$ 597	\$ 751
Long-term lease liability	263	307
Term note	750	875
Convertible Note – related party	475	475
Convertible Note	625	625
TOTAL LIABILITIES	\$ 5,502	\$ 8,174
STOCKHOLDERS' EQUITY		
Series A Convertible Preferred Stock, \$.001 par value, 37,564,767 shares authorized; 0 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	-	-
Series B Convertible Preferred Stock, \$.001 par value; 85 shares authorized; 0.85 shares issued and outstanding as of March 31, 2024 and December 31, 2023, respectively	-	-

Common stock, \$ 0.001 par value; 675,000,000 authorized; 10,485,065 and 10,453,315 issued, 10,176,603 and 10,123,964 shares outstanding as of March 31, 2024 and December 31, 2023, respectively	10	10
Additional paid in capital	95,438	95,031
Treasury stock at cost; 308,462 and 329,351 shares at March 31, 2024 and December 31, 2023, respectively	(589)	(659)
Accumulated deficit	(82,402)	(81,849)

Accumulated other comprehensive loss	(66)	(2)
STOCKHOLDERS' EQUITY	12,391	12,531
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 17,893</u>	<u>\$ 20,705</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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VerifyMe, Inc.
Consolidated Statements of Operations
(Unaudited)
(In thousands, except share data)

	Three months ended	
	March 31, 2024	March 31, 2023
NET REVENUE	\$ 5,759	\$ 5,661
COST OF REVENUE ^(a)	3,499	4,140
GROSS PROFIT	<u>2,260</u>	<u>1,521</u>
OPERATING EXPENSES		
Segment management and Technology ^(a)	1,343	1,105
General and administrative ^(a)	1,121	1,413
Research and development	55	8
Sales and marketing ^(a)	388	499
Total Operating expenses	<u>2,907</u>	<u>3,025</u>
LOSS BEFORE OTHER INCOME (EXPENSE)	(647)	(1,504)
OTHER (EXPENSE) INCOME		
Interest expenses, net	(38)	(42)
Unrealized loss on equity investment	-	(32)
Change in fair value of contingent consideration	132	-
Other expense, net	-	(2)
TOTAL OTHER INCOME (EXPENSE), NET	<u>94</u>	<u>(76)</u>
NET LOSS	<u>\$ (553)</u>	<u>\$ (1,580)</u>
LOSS PER SHARE:		
BASIC	\$ (0.05)	\$ (0.17)
DILUTED	<u>\$ (0.05)</u>	<u>\$ (0.17)</u>
WEIGHTED AVERAGE COMMON SHARE OUTSTANDING		
BASIC	10,073,445	9,332,553
DILUTED	<u>10,073,445</u>	<u>9,332,553</u>

(a) Includes share-based compensation of \$458 thousand and \$286 thousand for the three months ended March 31, 2024 and March 31, 2023 respectively.

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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VerifyMe, Inc.
Consolidated Statements of Comprehensive Loss
(Unaudited)
(In thousands)

	Three months ended	
	March 31, 2024	March 31, 2023
NET LOSS	\$ (553)	\$ (1,580)
Change in fair value of interest rate, Swap	3	(1)
Foreign currency translation adjustments	(67)	(2)
Total comprehensive loss	<u>\$ (617)</u>	<u>\$ (1,583)</u>

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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VerifyMe, Inc.
Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Three months ended	
	March 31, 2024	March 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (553)	\$ (1,580)
Adjustments to reconcile net loss to net cash used in operating activities:		
Allowance for bad debt	10	3
Stock based compensation	46	22
Unrealized loss on equity investment	-	32
Change in fair value of contingent consideration	(132)	-
Fair value of restricted stock awards and restricted stock units issued in exchange for services	412	264
Loss on disposal of equipment	-	2
Impairments	4	-
Amortization and depreciation	299	282
Unrealized loss on foreign currency transactions	53	-
Changes in operating assets and liabilities:		
Accounts receivable	1,804	2,742
Unbilled revenue	363	488
Inventory	7	27
Prepaid expenses and other current assets	(8)	(42)
Accounts payable, other accrued expenses and net change in operating leases	(2,365)	(2,366)
Net cash used in operating activities	(60)	(126)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of patents	(11)	(31)
Purchase of office equipment	(2)	(13)
Cash paid in business combination	-	(363)
Deferred implementation costs	-	(36)
Capitalized software costs	(97)	(178)
Net cash used in investing activities	(110)	(621)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	-	500
Proceeds from SPP Plan	21	59
Tax withholding payments for employee stock-based compensation in exchange for shares surrendered	(1)	(1)
Increase in treasury shares (share repurchase program)	(1)	(10)
Repayment of debt and line of credit	(125)	(125)
Net cash (used in) provided by financing activities	(106)	423
Effect of exchange rate changes on cash	(1)	(2)
NET DECREASE CASH AND CASH EQUIVALENTS	(277)	(326)
CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH- BEGINNING OF PERIOD	3,095	3,411
CASH AND CASH EQUIVALENTS INCLUDING RESTRICTED CASH- END OF PERIOD	\$ 2,818	\$ 3,085

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SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash paid during the period for:

Interest	\$ 70	\$ 34
Income taxes	\$ -	\$ -

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Change in fair value of interest rate, swap	\$ 3	\$ 1
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The accompanying notes are an integral part of these unaudited consolidated financial statements.

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VerifyMe, Inc.
Consolidated Statements of Stockholders' Equity
(Unaudited)
(In thousands, except share data)

	Series A Convertible Preferred Stock		Series B Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss		Accumulated Deficit	Total
	Number of Shares	Amount	Number of Shares	Amount	Number of Shares	Amount		Number of Shares	Amount				
Balance at December 31, 2022	-	-	0.85	-	8,951,035	10	92,987	389,967	(949)	-	(3)	(78,459)	13,586
Restricted stock awards	-	-	-	-	-	-	1	-	-	-	-	-	1
Restricted stock units, net of shares withheld for employee tax	-	-	-	-	1,750	-	262	-	-	-	-	-	262
Common stock issued in relation to Stock Purchase Plan	-	-	-	-	48,838	-	(85)	(48,093)	166	-	-	-	81
Common stock issued in relation to Acquisition	-	-	-	-	353,492	-	625	-	-	-	-	-	625
Repurchase of common stock	-	-	-	-	(6,201)	-	-	6,201	(10)	-	-	-	(10)
Accumulated other comprehensive loss	-	-	-	-	-	-	-	-	-	(3)	-	-	(3)
Net loss	-	-	-	-	-	-	-	-	-	-	-	(1,580)	(1,580)
Balance at March 31, 2023	-	-	0.85	-	9,348,914	10	93,790	348,075	(793)	(6)	(80,039)	12,962	

Series A Convertible Preferred Stock	Series B Convertible Preferred Stock	Common Stock	Additional Paid-In	Treasury Stock	Accumulated Other Comprehensive	Accumulated
Number of	Number of	Number of		Number of		

	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Shares	Amount	Loss	Deficit	Total
Balance at December 31, 2023	-	-	0.85	-	10,123,964	10	95,031	329,351	(659)	(2)	(81,849)	12,531
Restricted stock awards	-	-	-	-	-	-	148	-	-	-	-	148
Restricted stock units, net of shares withheld for employee tax	-	-	-	-	1,750	-	263	-	-	-	-	263
Common stock issued in relation to Stock Purchase Plan	-	-	-	-	21,889	-	(46)	(21,889)	71	-	-	25
Common stock issued for services	-	-	-	-	30,000	-	42	-	-	-	-	42
Repurchase of Common Stock	-	-	-	-	(1,000)	-	-	1,000	(1)	-	-	(1)
Accumulated other comprehensive loss	-	-	-	-	-	-	-	-	-	(64)	-	(64)
Net loss	-	-	-	-	-	-	-	-	-	-	(553)	(553)
Balance at March 31, 2024	-	-	0.85	-	10,176,603	10	95,438	308,462	(589)	(66)	(82,402)	12,391

The accompanying notes are an integral part of these unaudited consolidated financial statements.

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VerifyMe, Inc.
Notes to the Consolidated Financial Statements (unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Business

VerifyMe, Inc. ("VerifyMe") was incorporated in the State of Nevada on November 10, 1999. VerifyMe, together with its subsidiaries, including Trust Codes Global Limited ("Trust Codes Global") and PeriShip Global LLC ("PeriShip Global"), (together the "Company," "we," "us," or "our") is based in Lake Mary, Florida and its common stock, par value \$ 0.001 per share, and warrants to purchase common stock are traded on The Nasdaq Capital Market ("Nasdaq") under the trading symbols "VRME" and "VRMEW," respectively.

VerifyMe, is a traceability and customer support services provider using specialized software and process technology. The Company operates a Precision Logistics Segment and an Authentication Segment to provide specialized logistics for time-and-temperature sensitive products, as well as item level traceability, anti-diversion and anti-counterfeit protection, brand protection and enhancement technology solutions. Through our Precision Logistics segment, we provide a value-added service for sensitive parcel management driven by a proprietary software platform that provides predictive analytics from key metrics such as pre-shipment weather analysis, flight-tracking, sort volumes, and traffic, delivered to customers via a secure portal. The portal provides real-time visibility into shipment transit and last-mile events which is supported by a service center. Through our Authentication segment our technologies enable brand owners to gather business intelligence through the supply chain, cross-sell products, detect counterfeit activities, monitor product diversion, and build brand loyalty utilizing our unique dynamic codes which are read by consumers with their smart phones. The Company's activities are subject to significant risks and uncertainties. See the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in this report.

Reclassifications

Certain amounts presented for the three months ended March 31, 2023, reflect reclassifications made to conform to the presentation in our current reporting period. These reclassifications had no effect on the previously reported net loss.

Basis of Presentation

The accompanying unaudited interim consolidated financial statements (the "Interim Statements") include the accounts of VerifyMe and its wholly owned subsidiaries PeriShip Global and Trust Codes Global. All significant intercompany balances and transactions have been eliminated upon consolidation. The consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and disclosures required by U.S. generally accepted accounting principles ("GAAP") for complete financial statements are not included herein. The Interim Statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K for the year ended December 31, 2023, as filed with the Securities and Exchange Commission (the "SEC") on March 29, 2024. The accompanying Interim Statements are unaudited; however, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. The interim results for the three months ended March 31, 2024, are not necessarily indicative of the results to be expected for the year ending December 31, 2024, or for any future interim periods.

Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheets that sum to the total of the same such amounts in the consolidated statements of cash flows (dollars in thousands):

	As of	
	March 31, 2024	December 31, 2023
Cash and cash equivalents	\$ 2,755	\$ 3,032
Restricted cash	63	63
Total cash and cash equivalents including restricted cash	\$ 2,818	\$ 3,095

The Company classifies cash and cash equivalents that are restricted from operating use for the next twelve months as restricted cash. As of March 31, 2024, and December 31, 2023, the Company held \$ 63 thousand subject to restrictions.

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Segment Reporting

Operating segments are defined as components of an enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker, or decision-making group, in deciding the method by which to allocate resources and assess performance. The Company has two reportable segments, namely, (i) Precision Logistics and (ii) Authentication. See Note 11 - Segment Reporting, for further discussion of the Company's segment reporting structure.

Foreign Currency Translation

The functional currency of our New Zealand operations is the local currency, New Zealand dollar (NZD). The translation of the foreign currency into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using the weighted average exchange rates prevailing during the year. The unrealized gains and losses resulting from such translation are included as a component of comprehensive income. Translation gains and losses arising from currency exchange rate fluctuations on transactions denominated in a currency other than the local functional currency are included in "General and administrative" on our Consolidated Statements of Operations. The foreign currency transaction losses for the three months ended March 31, 2024, and March 31, 2023 was \$ 62 thousand and \$ 0, respectively.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recent Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires public entities with a single reportable segment to provide all the disclosures required by this standard and all existing segment disclosures in Topic 280 on an interim and annual basis, including new requirements to disclose significant segment expenses that are regularly provided to the chief operating decision maker ("CODM") and included within the reported measure(s) of a segment's profit or loss, the amount and composition of any other segment items, the title and position of the CODM, and how the CODM uses the reported measure(s) of a segment's profit or loss to assess performance and decide how to allocate resources. The guidance is effective for annual periods beginning after December 15, 2023, and interim periods beginning after December 15, 2024, applied retrospectively with early adoption permitted. The Company adopted the new standard beginning January 1, 2024. Note 11 – Segment Reporting has been updated to reflect the new disclosure requirements and certain amounts have been reclassified in the Consolidated Statement of Operations. There is no other impact of adoption of this standard on the Company's consolidated financial statements and disclosures.

Fair Value of Financial Instruments

The Company's financial instruments consist of accounts receivable, unbilled revenue, accounts payable, notes payable and accrued expenses, contingent consideration and long-term derivative assets or liabilities. The carrying value of accounts receivable, accounts payable and accrued expenses approximate their fair value because of their short maturities. The Company believes the carrying amount of its notes payable approximates fair value based on rates and other terms currently available to the Company for similar debt instruments.

The Company follows FASB ASC 820, "Fair Value Measurements and Disclosures," and applies it to all assets and liabilities that are being measured and reported on a fair value basis. The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

The level in the fair value within which a fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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The following table presents the Company's financial instruments that are measured and recorded at fair value on the Company's balance sheets on a recurring basis, and their level within the fair value hierarchy as of March 31, 2024 and December 31, 2023.

Amounts in Thousands ('000)

	Derivative Asset (Level 2)	Contingent Consideration (Level 3)
Balance as of December 31, 2023	\$ 4	\$ (924)
Change in fair value of Contingent Consideration	-	132
Change in fair value to interest rate, SWAP, recognized in other comprehensive loss	3	-
Balance at March 31, 2024	\$ 7	\$ (792)

Revenue Recognition

The Company accounts for revenues according to Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers" which establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers.

The Company applies the following five steps, separated by reportable segments, in order to determine the appropriate amount of revenue to be recognized as it fulfills its obligations under each of its agreements.

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to performance obligations in the contract; and
- recognize revenue as the performance obligation is satisfied.

For more detailed information about reportable segments, see Note 11 – Segment reporting. The Company generally considers completion of an agreement, or Statement of Work ("SOW") and/or purchase order as a customer contract, provided collection is considered probable.

Precision Logistics

Our Precision Logistics segment consists of two service lines, Proactive and Premium. Under our Proactive service line, clients pay us directly for carrier service coupled with our proactive logistics service. Terms typically range 7 days and no longer than 30 days. The Company has determined it is the principal and recognizes shipment fees in gross revenue. Under our Premium service line, we provide complete white-glove shipping monitoring and predictive analytics services. This service includes customer web portal access, weather monitoring, temperature control, full service center support and last mile resolution. Payment terms are typically 30-45 days.

Under both service lines in our Precision Logistics segment, our performance obligation is met, and revenue is recognized, when the packages are delivered. The transaction fees consist of fixed consideration made up of amounts contractually billed to the customer. There are no variable considerations in the transaction fee, in either service line.

Authentication

Our Authentication segment primarily consists of our brand protection service line which consists of a custom suite of products that offer clients traceability and brand solutions. Terms typically range between 30 and 90 days. Our performance obligation is met, and revenue is recognized, when our products are shipped or delivered depending on the specific agreement with the customer. The transaction fee is made up of fixed consideration based on the related purchase order or agreement. Warranties and other variable considerations are analyzed by the Company, in terms of historical warranties, current economic trends, and changes in customer demand, and have been determined to be insignificant in the three months ended March 31, 2024.

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Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations. Pursuant to ASC 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under authoritative guidance, the Company first assesses qualitative factors to determine whether it was necessary to perform the quantitative goodwill impairment test. The assessment considers factors such as, but not limited to, macroeconomic conditions, data showing other companies in the industry and our share price. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

Basic and Diluted Net Loss per Share of Common Stock

The Company follows FASB ASC 260, "Earnings Per Share," when reporting earnings per share resulting in the presentation of basic and diluted earnings per share. Because the Company reported a net loss for each of the periods presented, common stock equivalents, including preferred stock, stock options and warrants were anti-dilutive; therefore, the amounts reported for basic and diluted loss per share were the same.

For the three months ended March 31, 2024, and 2023, there were shares potentially issuable, that could dilute basic earnings per share in the future that were excluded from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive to the Company's losses during the periods presented. For the three months ended March 31, 2024, there were approximately 8,383,000 anti-dilutive shares consisting of 2,344,000 unvested performance restricted stock units, restricted stock units, restricted stock awards and options under the stock purchase plan, 301,000 shares issuable upon exercise of stock options, 4,629,000 shares issuable upon exercise of warrants, 957,000 shares issuable upon conversion of convertible debt, 8,000 shares issuable in connection with earnout earned for the Trust Codes Acquisition, and 144,000 shares issuable upon conversion of preferred stock. For the three months ended March 31, 2023, there were approximately 6,139,000 anti-dilutive shares consisting of 844,000 unvested restricted stock units and options under the stock purchase plan, 337,000 shares issuable upon exercise of stock options, 4,814,000 shares issuable upon exercise of warrants, and 144,000 shares issuable upon conversion of preferred stock.

Stock-Based Compensation

We account for stock-based compensation under the provisions of FASB ASC 718, "Compensation—Stock Compensation", which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. We estimate the fair value of stock options on the date of grant using the Black-Scholes model. The assumptions used in the Black-Scholes option pricing model include risk-free interest rates, expected volatility and expected life of the stock options. Changes in these assumptions can materially affect estimates of fair value stock-based compensation, and the compensation expense recorded in future periods. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods using the straight-line method. For performance restricted stock units with stock price appreciation targets (see Note 6 – Stock Options, Restricted Stock and Warrants), we applied a lattice approach that incorporated a Monte Carlo simulation, which involved random iterations that took different future price paths over the restricted stock unit's contractual life based on the appropriate probability distributions (which are based on commonly applied Black Scholes inputs). The fair value was determined by taking the average of the grant date fair values under each Monte Carlo simulation trial. We recognize compensation expense on a straight-line basis over the performance period and there is no ongoing adjustment or reversal based on actual achievement during the period.

We account for stock-based compensation awards to non-employees in accordance with ASU No. 2018-07, Compensation – Stock Based Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07"), which aligns accounting for share-based payments issued to nonemployees to that of employees under the existing guidance of Topic 718, with certain exceptions. This update supersedes previous guidance for equity-based payments to nonemployees under Subtopic 505-50, Equity – Equity-Based Payments to Non-Employees.

All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Non-employee equity-based payments are recorded as an expense over the service period, as if we had paid cash for the services. At the end of each financial reporting period, prior to vesting or prior to the completion of the services, the fair value of the equity-based payments will be re-measured, and the non-cash expense recognized during the period will be adjusted accordingly. Since the fair value of equity-based payments granted to non-employees is subject to change in the future, the amount of the future expense will include fair value re-measurements until the equity-based payments are fully vested or the service completed.

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NOTE 2 – REVENUE

Revenue by Category

The following series of tables present our revenue disaggregated by various categories (dollars in thousands).

Revenue	Authentication Three Months Ended March 31,		Precision Logistics Three Months Ended March 31,		Consolidated Three Months Ended March 31,	
	2024	2023	2024	2023	2024	2023
Proactive services	\$ -	\$ -	\$ 4,225	\$ 4,504	\$ 4,225	\$ 4,504
Premium services	-	-	1,389	910	1,389	910
Brand protection services	145	247	-	-	145	247
	<u>\$ 145</u>	<u>\$ 247</u>	<u>\$ 5,614</u>	<u>\$ 5,414</u>	<u>\$ 5,759</u>	<u>\$ 5,661</u>

Contract Balances

The timing of revenue recognition, billings and cash collections results in unbilled revenue (contract assets) and deferred revenue (contract liabilities) on the consolidated balance sheets. Amounts charged to our clients become billable according to the contract terms, which usually consider the delivery completion. Unbilled amounts will generally be billed and collected within 30 days but typically no longer than 60 days. When we advance bill clients prior to the work being performed, generally, such amounts will be earned and recognized in revenue within twelve months. These assets and liabilities are reported on the consolidated balance sheets on a contract-by-contract basis at the end of each reporting period. Changes in the contract asset and liability balances during the three-month period ended March 31, 2024, were not materially impacted by any other factors.

Applying the practical expedient in ASC Topic 606, we recognize the incremental costs of obtaining contracts (i.e. sales commissions) as an expense when incurred if the amortization period of the assets that we otherwise would have recognized is one year or less. As of March 31, 2024, we did not have any capitalized sales commissions.

For all periods presented, contract liabilities were not significant.

The following table provides information about contract assets from contracts with customers:

In Thousands	Contract Asset March 31,	
	2024	2023
Beginning balance, January 1	\$ 1,282	\$ 1,185
Contract asset additions	916	697
Reclassification to accounts receivable, billed to customers	(1,282)	(1,185)
Ending balance ⁽¹⁾	<u>\$ 916</u>	<u>\$ 697</u>

[Table of Contents](#)**NOTE 3 – BUSINESS COMBINATIONS**Trust Codes Global Limited

On March 1, 2023, we acquired, through Trust Codes Global, the business and certain assets of Trust Codes Limited ("Trust Codes"), specializing in brand protection, anti-counterfeiting, and consumer engagement technology with an expertise in the food and agriculture industry. Trust Codes Global uses unique QR codes or IoT, coupled with GS1 standards to deliver cloud-based brand protection based on a unique per-item digital identity to protect brand and product authenticity, increase data visualization of a product through the end to end supply chain, and creates a data-drive engine to inform and educate consumers of the product. The Company accounted for the transaction as an acquisition of a business under ASC 805 – Business Combination. The purchase price was approximately \$ 1.0 million which consisted of \$ 0.36 million in cash paid at closing and 353,492 shares of common stock of the Company, representing \$ 0.65 million in stock consideration. In addition, the purchase agreement requires consideration contingent upon the achievement of earnings targets during a five-year period subsequent to the closing of the acquisition. The earn-out consideration is estimated at \$ 1.1 million at the acquisition date, however the maximum amount of the payment is unlimited. The goodwill recognized is due to the expected synergies from combining the operations of the acquiree with the Company. All of the goodwill recorded for financial statement purposes is deductible for tax purposes. The Company incurred \$ 278 thousand in relation to acquisition related costs which have been included in General and administrative in the three months ended March 31, 2023, in the accompanying Consolidated Statements of Operations. Trust Codes Global is included in the Authentication segment and the results of its operations have been included in the consolidated financial statements beginning March 1, 2023. The pro-forma financial information for Trust Codes is immaterial to our results of operations and impractical to provide.

The following table summarizes the purchase price allocation for the acquisition (dollars in thousands).

Cash	\$	363	
Fair value of contingent consideration		1,125	
Stock (issuance of 353,492 shares of common stock) ^(a)		625	
Total purchase price	\$	2,113	
			Amortization Period
Purchase price allocation:			
Prepaid expenses	\$	25	
Property and Equipment, net		18	
ROU Asset		171	
Developed Technology		485	8 years
Trade Names/Trademarks		148	18 years
Customer Relationships		68	10 years
Goodwill		1,383	
Accounts payable and other accrued expenses		(14)	
Current lease liability		(63)	
Long term lease liability		(108)	
	\$	2,113	

(a) Stock issued was calculated based on the 15 day volume-weighted average price ("VWAP") through February 28, 2023 calculated at \$1.8388.

Contingent Consideration

ASC Topic 805 requires that contingent consideration to be recognized at fair value on the acquisition date and be re-measured each reporting period with subsequent adjustments recognized in the consolidated statement of operations. We estimate the fair value of contingent consideration liabilities using an appropriate valuation methodology, typically either an income-based approach or a simulation model, such as the Monte Carlo model, depending on the structure of the contingent consideration arrangement. Contingent consideration is valued using significant inputs that are not observable in the market which are defined as Level 3 inputs pursuant to fair value measurement accounting. We believe our estimates and assumptions are reasonable; however, there is significant judgment involved. At each reporting date, the contingent consideration obligation is revalued to estimated fair value, and changes in fair value subsequent to the acquisitions are reflected in income or expense in the consolidated statements of operations, and could cause a material impact to, and volatility in, our results. Changes in the fair value of contingent consideration obligations may result from changes in discount periods and rates and changes in the timing and amount of revenue and/or earnings projections.

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As of March 31, 2024, contingent consideration presented as current liability totaled \$ 195 thousand. As of March 31, 2024, we also had accrued long term contingent consideration totaling \$ 597 thousand related to the acquisition of Trust Codes on the consolidated balance sheets and represents the portion of contingent consideration estimated to be payable greater than twelve months from the balance sheet date.

NOTE 4 – INTANGIBLE ASSETS AND GOODWILLGoodwill

Goodwill represents costs in excess of values assigned to the underlying net assets of acquired businesses. Intangible assets acquired are recorded at estimated fair value. Goodwill is deemed to have an indefinite life and is not amortized but is tested for impairment annually, and at any time when events suggest an impairment more likely than not has occurred. We test goodwill at the reporting unit level.

ASC Topic 350, *Intangibles - Goodwill and Other* (ASC Topic 350), permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform a quantitative goodwill impairment test. Under ASC Topic 350, an entity is not required to perform a quantitative goodwill impairment test for a reporting unit if it is more likely than not that its fair value is greater than its carrying amount. A reporting unit is an operating segment, or one level below an operating segment, as defined by U.S. GAAP.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. These estimates and assumptions include revenue growth rates and operating margins used to calculate projected future cash flows, risk-adjusted discount rates, future economic and market conditions and determination of appropriate market comparables. We base our fair value estimates on assumptions we believe to be reasonable but are unpredictable and inherently uncertain. Actual future results may differ from those estimates. The timing and frequency of our goodwill impairment tests are based on an ongoing assessment of events and circumstances that would indicate a possible impairment. We will continue to monitor our goodwill and intangible assets for impairment and conduct formal tests when impairment indicators are present.

Each of our two reportable segments represents an operating segment under ASC Topic 280, *Segment Reporting*. We test our goodwill at the reporting unit level, or one level below an operating segment, under ASC Topic 350, *Intangibles - Goodwill and Other*. We determined that we have two reporting units for purposes of goodwill impairment testing, which represent our two reportable business segments, as discussed below.

Changes in the carrying amount of goodwill by reportable business segment for the three months ended March 31, 2024, were as follows (in thousands):

	Authentication	Precision Logistics	Total
Net book value at January 1, 2024	\$ 1,396	\$ 3,988	\$ 5,384
2024 Activity			
Foreign currency translation	(75)	-	(75)
Net book value at March 31, 2024	<u>\$ 1,321</u>	<u>\$ 3,988</u>	<u>\$ 5,309</u>

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Intangible Assets Subject to Amortization

Our intangible assets include amounts recognized in connection with patents and trademarks, capitalized software and acquisitions, including customer relationships, tradenames, developed technology and non-compete agreements. Intangible assets are initially valued at fair market value using generally accepted valuation methods appropriate for the type of intangible asset. Amortization is recognized on a straight-line basis over the estimated useful life of the intangible assets. Intangible assets with definite lives are reviewed for impairment if indicators of impairment arise. Except for goodwill, we do not have any intangible assets with indefinite useful lives.

Intangible assets with finite lives are subject to amortization over their estimated useful lives. The primary assets included in this category and their respective balances were as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Remaining Useful Life (Years)
March 31, 2024				
Patents and Trademarks	\$ 1,773	\$ (365)	\$ 1,408	12
Capitalized Software	161	(117)	44	2
Customer Relationships	1,904	(364)	1,540	8
Developed Technology	3,606	(1,081)	2,525	5
Internally Used Software	1,010	(84)	926	6
Non-Compete Agreement	191	(74)	117	3
Deferred Implementation	198	(29)	169	9
Total Intangible Assets	<u>\$ 8,843</u>	<u>\$ (2,114)</u>	<u>\$ 6,729</u>	
December 31, 2023				
Patents and Trademarks	\$ 2,002	\$ (564)	\$ 1,438	13
Capitalized Software	161	(109)	52	2
Customer Relationships	1,908	(317)	1,591	9
Developed Technology	3,632	(938)	2,694	5
Internally Used Software	914	(62)	852	6
Non-Compete Agreement	191	(65)	126	3
Deferred Implementation	198	(24)	174	9
Total Intangible Assets	<u>\$ 9,006</u>	<u>\$ (2,079)</u>	<u>\$ 6,927</u>	

Amortization expense for intangible assets was \$ 269 thousand and \$ 240 thousand for the three months ended March 31, 2024, and 2023, respectively.

Patents and Trademarks

As of March 31, 2024, our current patent and trademark portfolios consist of nine granted U.S. patents and two granted European patents (one validated in four countries of France, Germany, United Kingdom, and Italy and one validated in three countries of France, Germany and United Kingdom), three pending U.S. and foreign patent applications, twenty-six registered U.S. trademarks, two EU trademark registrations, one Colombian trademark registration, one Australian trademark registration, one Japanese trademark registration, one Mexican trademark registration, one Singaporean trademark registration, two UK trademark registrations, seven NZ trademark registration, one OAPI (African Intellectual Property Organization) trademark registration, and two pending US and foreign trademark applications.

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The Company expects to record amortization expense of intangible assets over the next 5 years and thereafter as follows (in thousands):

Fiscal Year ending December 31,	
2024 (nine months remaining)	\$ 858
2025	1,100
2026	1,096
2027	1,062
2028	687
Thereafter	1,926
Total	<u>\$ 6,729</u>

NOTE 5 – STOCKHOLDERS' EQUITY

The Company expensed \$ 148 thousand and \$ 1 thousand related to restricted stock awards for the three months ended March 31, 2024, and 2023, respectively.

The Company expensed \$ 264 thousand and \$ 263 thousand related to restricted stock units for the three months ended March 31, 2024, and 2023, respectively.

During the three months ended March 31, 2024, the Company issued 1,750 shares of common stock upon vesting of restricted stock units, net of common stock withheld for taxes.

On March 31, 2024 the Company issued 30,000 of restricted common stock, vesting immediately, with a value of \$ 42 thousand, for consulting services.

Non-Qualified Stock Purchase Plan

On June 10, 2021, the stockholders of the Company approved a non-qualified stock purchase plan (the "2021 Plan"). The 2021 Plan provides eligible participants, including employees, directors and consultants of the Company, the opportunity to purchase shares of the Company's common stock thereby increasing their interest in the Company's continued success. The maximum number of common stock reserved and available for issuance under the 2021 Plan is 500,000 shares. The purchase price of shares of common stock acquired pursuant to the exercise of an option will be the lesser of 85% of the fair market value of a share (a) on the enrollment date, and (b) on the exercise date. The 2021 Plan is not intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended (the "Code"). The Company applied FASB ASC 718, "Compensation-Stock Compensation" and estimated the fair value using the Black-Scholes model, as the 2021 Plan is considered compensatory. In relation to the 2021 Plan the Company expensed \$ 4 thousand and \$ 22 thousand for the three months ended March 31, 2024, and 2023,

respectively. During the three months ended March 31, 2024 and 2023, the Company received \$ 21 thousand and \$ 59 thousand, respectively, in proceeds related to the 2021 Plan. The Company has currently suspended new offering periods under the 2021 Plan.

Shares Held in Treasury

As of March 31, 2024, and December 31, 2023, the Company had 308,462 and 329,351 shares, respectively, held in treasury with a value of approximately \$ 589 thousand and \$ 659 thousand, respectively.

On February 29, 2024, seven participants exercised their option under the Company's non-qualified stock purchase plan, and as a result, 21,889 shares were issued from treasury, with an exercise price of \$ 0.97 per share.

Shares Repurchase Program

In December 2023, the Company's Board of Directors approved a new share repurchase program to allow the Company to spend up to \$ 0.5 million to repurchase shares of its common stock so long as the price per share does not exceed \$1.00 until December 14, 2024. During the three months ended March 31, 2024, the Company repurchased 1,000 shares of common stock for \$ 1 thousand under the Company's current program.

NOTE 6 – STOCK OPTIONS, RESTRICTED STOCK AND WARRANTS

During 2013, the Company adopted the 2013 Omnibus Equity Compensation Plan (the "2013 Plan"). Under the 2013 Plan, the Company is authorized to grant awards of stock options, restricted stock, restricted stock units and other stock-based awards up to an aggregate of 400,000 shares of common stock. The 2013 Plan is intended to permit certain stock options granted to employees under the 2013 Plan to qualify as incentive stock options. All options granted under the 2013 Plan, which are not intended to qualify as incentive stock options are deemed to be non-qualified stock options.

On November 14, 2017, the Executive Committee of the Company's Board of Directors adopted the 2017 Equity Incentive Plan (the "2017 Plan") which covered the potential issuance of 260,000 shares of common stock. The 2017 Plan provided that directors, officers, employees, and consultants of the Company were eligible to receive equity incentives under the 2017 Plan at the discretion of the Board or the Board's Compensation Committee.

On August 10, 2020, the Company's Board of Directors adopted the 2020 Equity Incentive Plan (the "2020 Plan"), subject to stockholder approval, which authorizes the potential issuance of up to 1,069,110 shares of common stock. On September 30, 2020, the Company's stockholders approved the 2020 Plan, and upon such approval the 2020 Plan became effective and the 2017 Plan was terminated. Shares of common stock underlying existing awards under the 2017 Plan may become available for issuance pursuant to the terms of the 2020 Plan under certain circumstances. Employees and non-employee directors of the Company or its affiliates, and other individuals who perform services for the Company or any of its affiliates, are eligible to receive awards under the 2020 Plan at the discretion of the Board of Directors or the Board's Compensation Committee.

On March 28, 2022, the Company's Board of Directors adopted the First Amendment to the 2020 Plan, subject to stockholder approval, which increased the shares authorized for potential issuance under the 2020 Plan to 2,069,100 shares of common stock and extended the term of the 2020 Plan to June 9, 2023. On June 9, 2022, the Company's stockholders approved the First Amendment to the 2020 Plan. On April 17, 2023, the Company's Board of Directors adopted the Second Amendment to the 2020 Plan, subject to stockholder approval, which increased the shares authorized for potential issuance under the 2020 Plan to 3,069,100 shares of common stock and extended the term of the 2020 Plan to June 6, 2033. On June 6, 2023, the Company's stockholders approved the Second Amendment to the 2020 Plan. On March 18, 2024, the Company's Board of Directors adopted the Third Amendment to the 2020 Plan, subject to stockholder approval, which, if approved by the Company's stockholders, will increase the shares authorized for potential issuance under the 2020 Plan to 4,069,100 shares of common stock and extended the term of the 2020 Plan to June 4, 2033.

The 2020 Plan, as amended, is administered by the Compensation Committee which determines the persons to whom awards will be granted, the number of awards to be granted and the specific terms of each grant, including the vesting thereof, subject to the provisions of the plan.

In connection with incentive stock options, the exercise price of each option may not be less than 100% of the fair market value of the common stock on the date of the grant (or 110% of the fair market value in the case of a grantee holding more than 10% of the outstanding stock of the Company). The aggregate fair market value (determined at the time of the grant) of stock with respect to which incentive stock options are exercisable for the first time by any individual during any calendar year (under all plans of the Company and its affiliates) shall not exceed \$100 thousand, and the options in excess of \$100 thousand shall be deemed to be non-qualified stock options, including prices, duration, transferability and limitations on exercise. The maximum number of shares of common stock that may be issued under the 2020 Plan pursuant to incentive stock options may not exceed, in the aggregate, 1,000,000.

The Company has issued non-qualified stock options pursuant to contractual agreements with non-employees. Options granted under the agreements are expensed when the related service or product is provided. Determining the appropriate fair value of stock-based awards requires the input of subjective assumptions. The Company uses the Black-Scholes option pricing model to value its stock option awards. The assumptions used in calculating the fair value represent management's best estimates and involve inherent uncertainties and judgements.

Stock Options

The following table summarizes the activities for the Company's stock options as of March 31, 2024:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) ⁽¹⁾
Balance as of December 31, 2023	301,471	\$ 4.56		
Granted	-	-		
Forfeited/Cancelled/Expired	(471)	\$ 212.50		
Balance as of March 31, 2024	301,000	\$ 4.24		
Exercisable as of March 31, 2024	301,000	\$ 4.24	0.9	\$ -

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock for options that were in-the-money at each respective period.

As of March 31, 2024, the Company had no unvested stock options.

During the three months ended March 31, 2024, and 2023, the Company expensed \$ 0 thousand, with respect to options.

As of March 31, 2024, there was \$ 0 unrecognized compensation cost related to outstanding stock options.

Restricted Stock Awards and Restricted Stock Units

The following table summarizes the unvested restricted stock awards as of March 31, 2024:

	Number of Award Shares	Weighted - Average Grant Date Fair Value
Unvested at December 31, 2023	416,669	1.44
Granted	-	-
Vested	-	-
Balance at March 31, 2024	<u>416,669</u>	<u>\$ 1.44</u>

As of March 31, 2024, total unrecognized share-based compensation cost related to unvested restricted stock awards is \$ 112 thousand, which is expected to be recognized over a weighted-average period of less than one year.

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The following table summarizes the unvested restricted stock units as of March 31, 2024:

	Number of Unit Shares	Weighted - Average Grant Date Fair Value
Unvested at December 31, 2023	371,253	1.32
Granted	-	-
Vested	(2,500)	1.92
Balance at March 31, 2024	<u>368,753</u>	<u>\$ 1.32</u>

As of March 31, 2024, total unrecognized share-based compensation cost related to unvested restricted stock units was \$ 234 thousand, which is expected to be recognized over a weighted-average period of 1.1 years.

The following table summarizes the unvested performance restricted stock units as of March 31, 2024:

	Number of Unit Shares	Weighted - Average Number of Unit Shares
Unvested at December 31, 2023	1,438,760	1.51
Granted	120,000	1.04
Forfeited/Cancelled	-	-
Balance at March 31, 2024	<u>1,558,760</u>	<u>\$ 1.48</u>

For restricted stock units with stock price appreciation targets, we applied a lattice approach that incorporated a Monte Carlo simulation, which involved random iterations that took different future price paths over the restricted stock unit's contractual life based on the appropriate probability distributions (which are based on commonly applied Black Scholes inputs). The fair value of each grant was determined by taking the average of the grant date fair values under each Monte Carlo simulation trial. We recognize compensation expense on a straight-line basis over the derived service period and there is no ongoing adjustment or reversal based on actual achievement during the period.

As of March 31, 2024, total unrecognized share-based compensation cost related to unvested performance restricted stock units was \$ 1,106 thousand, which is expected to be recognized over a weighted-average period of 1.6 years.

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Warrants

The following table summarizes the activities for the Company's warrants for the three months ended March 31, 2024:

	Number of Warrant Shares	Weighted- Average Exercise Price	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands) ⁽¹⁾
Balance as of December 31, 2023	4,628,586	\$ 4.13		
Granted	-	-		
Expired	-	-		
Balance as of March 31, 2024	<u>4,628,586</u>	<u>\$ 4.13</u>	<u>2.0</u>	
Exercisable as of March 31, 2024	<u>4,628,586</u>	<u>\$ 4.13</u>	<u>2.0</u>	<u>\$ -</u>

- (1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying warrants and the closing stock price of \$1.395 for our common stock on March 31, 2024.

NOTE 7—DEBT

PeriShip Global is a party to a debt facility with PNC Bank, National Association (the "PNC Facility"). The PNC Facility includes a \$1 million revolving line of credit (the "RLOC") with a term of one-year which expires in September 2024. The RLOC has no scheduled payments of principal until maturity, and bears interest per annum at a rate equal to the sum of Daily SOFR plus 2.85% with monthly interest payments. The PNC Facility also includes a four-year term note (the "Term Note") for \$2 million which matures in September of 2026 and requires equal quarterly payments of principal and interest. The Term Note incurs interest per annum at a rate equal to the sum of Daily SOFR plus 3.1%. The RLOC and Term Note are guaranteed by VerifyMe and secured by the assets of PeriShip Global and VerifyMe.

The PNC Facility includes a number of affirmative and restrictive covenants applicable to PeriShip Global, including, among others, a financial covenant to maintain a fixed charge coverage ratio of at least 1.10 to 1.00 at the end of each fiscal year, affirmative covenants regarding delivery of financial statements, payment of taxes, and establishing primary depository accounts with PNC Bank, and restrictive covenants regarding dispositions of property, acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates. PeriShip Global is also restricted from paying dividends or making other distributions or payments on its capital stock if an event of default (as defined in the PNC Facility) has occurred or would occur upon such declaration of dividend. PeriShip Global was in compliance with all affirmative and restrictive covenants under the PNC Facility at March 31, 2024.

As of March 31, 2024, our short-term debt outstanding under the Term Note was \$ 0.5 million and total long-term debt outstanding under the Term Note was \$ 0.8 million. During the three months ended March 31, 2024, the Company made a repayment of \$ 125 thousand towards the principal of the outstanding Term Note.

As of March 31, 2024, \$ 0 was outstanding on the RLOC.

Effective October 17, 2022, the Company entered into an interest rate swap agreement, with a notional amount of \$ 1,958 thousand, effectively fixing the interest rate on the Company's outstanding debt at 7.602 %. The Company has designated the interest rate swap, expiring September 2026, as a cash flow hedge and have applied hedge accounting. The fair value of the derivative asset and liability associated with the interest rate swap are not significant as of March 31, 2024, and as of December 31, 2023, respectively.

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Convertible Debt

On August 25, 2023, the Company entered into a Convertible Note Purchase Agreement with certain investors for the sale of convertible promissory notes for the aggregate principal amount of \$ 1,100 thousand of which \$ 475 thousand was purchased by related parties including certain members of management and the Board of Directors. The notes are subordinated unsecured obligations of the Company and accrue interest at a rate of 8% per year payable semiannually in arrears on February 25 and August 25 of each year, beginning on February 25, 2024. The notes will mature on August 25, 2026 unless earlier converted or repurchased at a conversion price of \$1.15 per share of common stock. The Company may not redeem the notes prior to the maturity date. For the three months ended March 31, 2024 interest expense related to the convertible debt was \$ 22 thousand. As of March 31, 2024 the amount outstanding on the convertible debt was \$ 1,100 thousand and is included in Convertible debt and Convertible debt-related party on the accompanying Consolidated Balance Sheets.

NOTE 8—INCOME TAXES

There are no taxes payable as of March 31, 2024, or December 31, 2023.

Some of the federal tax carry forwards will expire at various dates through 2037. Generally, these can be carried forward and applied against future taxable income at the tax rate applicable at that time. We are currently using an effective income tax rate of 21 % for our projected available net operating loss carry-forward. No tax benefit has been recognized in the three months ending March 31, 2024, due to the uncertainty surrounding the realizability of the benefit.

Utilization of the net operating losses (NOL) carryforwards may be subject to a substantial annual limitation as required by Section 382 of the IRC, due to ownership changes of the company that could occur in the future, as well as similar state provisions. In general, an "ownership change" as defined by Section 382 results from a transaction or series of transactions over a three-year period resulting in an ownership change of more than 50 percentage points of the outstanding stock of a company by certain stockholders. These ownership changes may limit the amount of NOL carryforwards that can be utilized annually to offset future taxable income.

In accordance with FASB ASC 740 "Income Taxes", valuation allowances are provided against deferred tax assets, if based on the weight of available evidence, some or all, of the deferred tax assets may or will not be realized. The Company did not utilize any NOL deductions for the three months ended March 31, 2024.

NOTE 9—LEASES

The Company accounts for its leases under Accounting Standard Codification ("ASC") Topic 842, Leases. The Company determines at its inception whether an arrangement that provides us control over the use of an asset is a lease. We recognize at lease commencement a right-of-use (ROU) asset and lease liability based on the present value of the future lease payments over the lease term. We have elected not to recognize a ROU asset and lease liability for leases with terms of 12 months or less. Our current long-term leases include an option to extend the term of the lease prior to the end of the initial term. It is not reasonably certain that we will exercise the option and have not included the impact of the option in the lease term for purposes of determining total future lease payments. As our lease agreement does not explicitly state the discount rate implicit in the lease, we use our promissory note borrowing rate to calculate the present value of future payments.

In addition to the base rent, real estate leases typically contain provisions for common-area maintenance and other similar services, which are considered non-lease components for accounting purposes. For our real estate leases, we apply a practical expedient to include these non-lease components in calculating the ROU asset and lease liability. For all other types of leases, non-lease components are excluded from our ROU assets and lease liabilities and expensed as incurred.

We have operating leases for office facilities. We do not have any finance leases.

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Lease expenses are included in General & administrative expenses on the accompanying Consolidated Statements of Operations. The components of lease expense were as follows (in thousands):

	Three months ended March 31,	
	2024	2023
Operating lease cost	\$ 47	\$ 37
Short-term lease cost	5	9
Total lease costs	\$ 52	\$ 46

Supplemental information related to leases was as follows (dollars in thousands):

	March 31, 2024		December 31, 2023	
Operating Lease right-of-use asset	\$	419	\$	468
Current portion of operating lease liabilities	\$	167	\$	170
Non-current portion of operating lease liabilities		263		307

Total operating lease liabilities	\$ 430	\$ 477
Cash paid for amounts included in the measurement of operating lease liabilities	\$ 46	\$ 177
Right-of-use assets obtained in exchange for operating lease liabilities	\$ -	\$ -
Weighted-average remaining lease term for operating leases (years)	2.8	
Weighted average discount rate for operating leases	6.4%	

The following is a reconciliation of future undiscounted cash flows to the operating lease liabilities on our consolidated balance sheets as of March 31, 2024 (in thousands):

Year ended December 31,	
2024 (Excluding three months ended March 31, 2024)	\$ 142
2025	192
2026	139
2027	45
Thereafter	-
Total future lease payments	518
Less: imputed interest	(88)
Present value of future lease payments	430
Less: current portion of lease liabilities	(167)
Long-term lease liabilities	\$ 263

NOTE 10– CONCENTRATIONS

For the three months ended March 31, 2024 and 2023, one customer represented 22 % and 13 % of revenues, respectively.

During the three months ended March 31, 2024, and 2023, one vendor accounted for 99 % of transportation cost, in our Precision Logistics segment.

As of March 31, 2024, one customer made up 31 % of accounts receivable, net. As of December 31, 2023, three customers made up 47 % of accounts receivable.

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NOTE 11 – SEGMENT REPORTING

As of March 31, 2024, we operated through two reportable business segments: (i) Precision Logistics and (ii) Authentication.

Precision Logistics:

This segment offers a value-added service provider for time and temperature sensitive parcel management. Through logistics management from a sophisticated IT platform with proprietary databases, package and flight-tracking software, weather, traffic, as well as dynamic dashboards with real-time visibility into shipment transit and last-mile events that are managed by a service center we provide our clients an end-to-end vertical approach for their most critical service delivery needs. Using our proprietary IT platform, we provide real-time information and analysis to mitigate supply chain flow interruption, delivering last-mile resolution for key markets, including the perishable healthcare and food industries.

Authentication:

This segment specializes in solutions that connect brands with consumers through their products. Consumers can authenticate products with their smart phone prior to usage, and brand owners have the ability to gather business intelligence while engaging directly with their consumers. Our Authentication segment also provides brand protection and supply chain functions such as counterfeit prevention.

We do not allocate the following items to the segments: general & administrative expenses, research and development and other income (expense).

The following table sets forth the revenue and operating results attributable to each reportable segment and includes a reconciliation of segment revenue to consolidated revenue and operating results to consolidated loss before income tax expense (in thousands):

	Three months ended March 31,	
	2024	2023
Revenue:		
Precision Logistics	\$ 5,614	\$ 5,414
Authentication	145	247
Total Revenue	\$ 5,759	\$ 5,661
Gross Profit:		
Precision Logistics	\$ 2,129	\$ 1,353
Authentication	131	168
Total Gross Profit	2,260	1,521
Segment Management and Technology – Precision Logistics	1,075	913
Segment Management and Technology – Authentication	268	192
Sales and marketing – Precision Logistics	223	262
Sales and marketing - Authentication	165	237
General and administrative	1,121	1,413
Research and development	55	8
LOSS BEFORE OTHER INCOME (EXPENSE)	(647)	(1,504)
OTHER INCOME (EXPENSE)	94	(76)
NET LOSS	\$ (553)	\$ (1,580)

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

The information in this Management's Discussion and Analysis should be read in conjunction with the accompanying unaudited consolidated financial statements and notes.

Cautionary Note Regarding Forward-Looking Statements

This report includes forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Private Securities Litigation Reform Act of 1995. The words "believe," "may," "estimate," "continue," "intended," "should," "plan," "could," "target," "potential," "will," "expect" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical facts contained in this report, including among others, our strategy, future operations, future financial position, future revenue, projected costs, prospects, plans, objectives of management and expected market growth are forward-looking statements.

Our actual results and financial condition may differ materially from those expressed or implied in such forward-looking statements. Therefore, you should not rely on any of these forward-looking statements.

For a further list and description of various risks, relevant factors and uncertainties that could cause future results or events to differ materially from those expressed or implied in our forward-looking statements, see the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections in this report, our Annual Report on Form 10-K for the fiscal year ended December 31, 2023, and our other filings with the Securities and Exchange Commission (the "SEC"). All forward-looking statements in this report are made only as of the date hereof or as indicated and represent our views as of the date of this report. Factors or events that could cause our actual results to differ may emerge from time to time, and it is not possible for us to predict all of them. We undertake no obligation to publicly update or revise any forward-looking statements, whether as the result of new information, future events or otherwise, except as required by law.

Overview

VerifyMe, Inc. ("VerifyMe") together with its subsidiaries, including Trust Codes Global Limited ("Trust Codes Global") and PeriShip Global, LLC ("PeriShip Global"), (together the "Company," "we," "us," or "our"), is a traceability and customer support services provider using specialized software and process technology. The company operates a Precision Logistics Segment and an Authentication Segment to provide specialized logistics for time-and-temperature sensitive products, as well as item level traceability, anti-diversion and anti-counterfeit protection, brand protection and enhancement technology solutions. Through our Precision Logistics segment, we provide a value-added service for sensitive parcel management driven by a proprietary software platform that provides predictive analytics from key metrics such as pre-shipment weather analysis, flight-tracking, sort volumes, and traffic, delivered to customers via a secure portal. The portal provides real-time visibility into shipment transit and last-mile events which is supported by a service center. Through our Authentication segment our technologies enable brand owners to gather business intelligence through the supply chain, cross-sell products, detect counterfeit activities, monitor product diversion, and build brand loyalty utilizing our unique dynamic codes which are read by consumers with their smart phones. Further information regarding our business segments is discussed below:

Precision Logistics: The Precision Logistics segment specializes in predictive analytics for optimizing delivery of time and temperature sensitive perishable products. We manage complex industry-specific shipping logistic processes that require critical time, temperature control and handling to prevent spoilage and extreme delivery times and brand impairment. Utilizing predictive analytics from multiple data sources including flight-tracking, weather, traffic, major carrier feeds, and time of day data, we provide our clients an end-to-end vertical approach for their most critical service delivery needs. Using our proprietary IT platform, we provide real-time information and analysis to mitigate supply chain flow interruption, as well as delivering last-mile resolution for key markets, including the perishable healthcare and food industries.

Through our proprietary PeriTrack® customer dashboard, we provide an integrated tool that gives our customers an in-depth look at their shipping activities and allows them access to critical information in support of the specific needs of the supply chain stakeholders. We offer post-delivery services such as customized reporting for trend analysis, system performance reports, power outage maps, and other tailored reports.

Precision Logistics generates revenue from two business service models.

- **ProActive Service** – clients pay us directly for carrier service coupled with our proactive logistics assistance.
- **Premium Service** – clients pay us directly or through our carrier partner for our complete white-glove shipping monitoring and predictive analytics service. This service includes customer web portal access, weather monitoring, temperature control, full service center support and last mile resolution.

Products: The Precision Logistics segment includes the following bundled services as part of our service offerings to our customers:

- **PeriTrack®:** Our proprietary PeriTrack® customer dashboard was developed utilizing our extensive logistics operational knowledge. This integrated web portal tool gives our customers an in-depth look at their shipping activities based on real-time data. The PeriTrack® dashboard was designed to provide critical information in support of the specific needs of supply chain stakeholders and gives our customer resolution specialists a 360° view of shipping activity. PeriTrack® features tools tailored for shippers of perishable goods, which includes the In-Transit Shipment Tracker. This tool provides details on the unique shipper's in-transit shipments, with the ability to select and analyze data on individual shipments.
- **Service Center:** We have assembled a team of customer resolution specialists based in the U.S. This service team resolves shipping problems on behalf of our customers. The service center acts as a help desk and monitors shipping to delivery for our customers.
- **Pre-Transit Service:** We help clients prepare their products for shipments by advising clients on packaging requirements for various types of perishable products. Each product type requires its own particular packaging to protect it during shipment, and we utilize our extensive knowledge and research to provide our customers with packaging recommendations to meet their unique needs.
- **Post-Delivery:** We provide customized reporting for trend analysis, system performance reports, power outage maps, and many other reports to help our customers improve their processes and customer service outcomes.
- **Weather/Traffic Service:** We have full-time meteorologists on staff to monitor weather. A package may experience a variety of weather conditions between the origin and destination, and our team actively monitors these conditions to maximize the number of timely and safely transmitted shipments. Similarly, traffic and construction also create unpredictable delays which our team works diligently to mitigate. If delays or other issues occur, we inform clients and work with them to proactively resolve such shipment issues.

Authentication: The Authentication segment specializes in traceability to connect brands with consumers through their product. This is critical in the current landscape of increased regulations, as well as increased counterfeit activity and product diversion. The ability to detect fraud or abnormal behavior while tracing an item's journey from production through to the consumer's hands provides consumers and brands the assurance they require. VerifyMe has custom software, patented technologies, and a cloud environment that combines machine learning and data science to meet the needs of consumers and brands. In addition, the personalized consumer experience with the brand creates a connection that increases brand perception and loyalty.

Products: We have a custom suite of products that offer clients traceability and brand solutions. These products are combined with "software as a service" or "SaaS" which is stored in the cloud and accessed through the internet.

- **VerifyMe Engage™** for brand enhancement allowing the brand owner to gather business intelligence and engage with customers
- **VerifyMe Authenticate™** using rare earth-based ink taggants for instant authentication of labels, packaging and products
- **VerifyMe Track & Trace™** for unit level traceability and supply chain control

Opportunities

Precision Logistics: Traditionally, most shipping businesses utilize the carrier's data platform for tracking which generally informs the shipping enterprise, and their customers, when a package is in transit, when a package has been delivered, and some level of detail of the path which a package traveled. We believe taking the data feeds from a carrier and adding real-time visibility with predictive analytics and the human intervention factor of our service center gives us a competitive advantage against other third-party platforms that solely rely on the carrier's data feeds. We utilize a variety of input sources beyond the carrier's data feed. Our proprietary "Predictive Analytics" technology is fed real-time meteorology data, traffic and road construction data, and power grid information to help predict issues before they happen. If an alert is created the shipper and our service center will work to address the issue and save the perishable product from spoiling, saving the shipper significant costs and reducing the need to replace products that are no longer viable. We have meteorologists on staff that track world-wide weather patterns to address predicted issues before they happen. We believe the company has two significant areas of opportunity. First, our services are specifically designed to address the needs of small and medium size agriculture, food and beverage companies. Second, the pharmaceutical and healthcare industries represent significant opportunities due to the enhanced tracking and customer service associated with distribution of these products. We are focusing our sales emphasis on those industries. In addition, we believe that combining our

authentication solutions into the product offering for Precision Logistics clientele, gives our Precision Logistics segment a competitive advantage to generate revenue by enhancing clients' ability to grow revenue, gain business intelligence and build brand loyalty.

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The U.S. logistics industry is facing an economic slowdown. We believe this represents an opportunity since major global carriers are cutting internal staff. These carriers are looking for lower cost alternatives to service their customers as well as partners that can help the carrier increase revenues. To maintain their credibility in the market, these carriers will need to ensure they meet their customers' demands for time and temperature sensitive shipments, while maintaining their overheads. We believe outsourcing this function to our Precision Logistics segment provides the ideal solution for all parties involved.

Building logistics infrastructure is a capital-intensive process as the investment is locked in for a considerably long period. Due to the current economic environment, and our cost competitive offering, we believe companies will opt to outsource their precision logistics services to reduce their operational costs. The outsourcing of supply chain related and other logistics operations to service providers such as ours allows companies to improve the efficiency of their businesses by focusing their resources on core competencies.

Authentication: We believe the products in our Authentication segment have applications in many areas. Currently, we are aggressively marketing opportunities in the following areas:

- Agriculture, Food and Beverage – Food safety is becoming more common as supply chains become more global and as imaging and manufacturing technology become more accessible. Food traceability, sustainability and carbon neutral production is becoming a significant consideration for brand and governments. We believe our unit level traceability and authentication solutions can help brands tell their story about sustainability and battle against tainted or substandard foods and beverages.
- Pharmaceuticals/nutraceuticals – We believe counterfeit prescription pharmaceuticals and nutraceuticals are a growing problem, widely recognized as a public health risk and a serious concern to public health officials, private companies, and consumers. Counterfeiting can apply to both branded and generic products and counterfeit pharmaceuticals may include products with the correct ingredients but fake packaging, with the wrong ingredients, without active ingredients or with insufficient active ingredients. The United States enacted legislation requiring the implementation of a comprehensive system designed to combat counterfeit, diluted or falsely labelled pharmaceuticals, referred to as serialization or electronic pedigree (e-Pedigree). Our consumer facing visible codes and unique pigments embedded in the ink of a unique serialized barcode can provide a layered security foundation for a customer solution in this market. We are seeking to expand our business in this market and believe that as additional pharmaceutical companies seek to comply with the legislation, our products will provide attractive alternatives to address the need for product identifiers.
- Consumer Products – We believe our technology solutions are particularly suited for the cosmetics, health and beauty and apparel industries. We give the consumer the ability to test a product's authenticity instantly with a smartphone. We can protect brand owners from liability litigation, product diversion and lost financial sales with our consumer facing visible codes and unique ink pigments which can be incorporated in dyes and used by manufacturers in these industries to combat counterfeiting and piracy of actual physical goods. Our pigments expressed as inks can also be used on packaging, as well as to track products that have been lost in transit, whether misplaced or stolen.

In addition, in each of these markets, our SaaS software allows brand owners and consumers to track the products and will alert the consumer or brand owner of product diversion with 24/7 monitoring. As each product has a unique code, this allows consumers and brand owners to authenticate the product in real time and link directly to the brand owner's website for additional product information, discounts, and more.

Synergies: We believe that Precision Logistics and Authentication segments have synergistic product centric technology platforms and combined have a compelling technology offering for brand owners. For example, currently our Precision Logistics segment ships vaccines for major pharmaceutical companies. With the addition of our Authentication technology, we can add unit level traceability and authentication to protect clients' vaccines from product diversion and sub-standard counterfeits. In addition, our Authentication segment brand enhancement solutions could give the Precision Logistics food and beverage clients the ability to gather rich business intelligence and build customer loyalty with engagement functions like videos, discounts, contests, recipes, etc.

Partnerships:

Precision Logistics has a direct partnership with a major global carrier company. This partnership includes the ability for both companies to white label each partner's services. In addition, Precision Logistics has data feeds directly from the carrier into our proprietary logistics optimization software which provides shippers much more detailed information and predictive analytics on their shipment versus a standard shipping code look up which is provided by the carrier.

Our Authentication segment has a contract with HP Indigo, and a strategic partnership with INX, the third largest producer of inks in North America. We believe these partnerships can be used to enable brand owners to securely prevent counterfeiting, prevent product diversion and authenticate labels, packaging and products alleviating liability from counterfeit products that harm consumers.

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Current Economic Environment

In response to market conditions and lower demand some carriers have implemented strategies to address a potential global recession. In April 2023, the major carrier that PeriShip Global partners with laid out steps it was taking to slash \$4 billion in permanent costs by the end of its 2025 fiscal year in response to these market conditions and lower demand. In June 2023, the major carrier stated that due to ongoing demand, it plans to ground 29 more aircraft in its fiscal year that started in June 2024. In mid-December 2023, the carrier forecasted a low single digit percentage decline in revenue year over year for 2024.

We have seen a softening in demand for some services related to high-end perishable items and cannabis products which seem to be impacted by reduced discretionary spending by U.S. consumers. While a recession, whether global or more localized to the U.S., may decrease the demand for our services that are more discretionary in nature, we believe that the internal cost cutting measures, if implemented by the major global carrier may benefit out-sourced service providers. We are working with this major global carrier to address their small and medium-sized business clients, which we believe is an underserved market and presents considerable growth opportunities for our Precision Logistics segment. However, we can provide no assurances that a decline in discretionary consumer spending will not have a negative impact on our revenues and results of operations.

Seasonality

We experience seasonal fluctuations in our net revenues from sales in our Precision Logistics segment. Revenues from sales are generally higher in the fourth quarter than in other quarters due to increased holiday shipments. The seasonality of our business may cause fluctuations in our quarterly operating results.

Results of Operations

Comparison of the three months ended March 31, 2024, and 2023

The following discussion analyzes our results of operations for the three months ended March 31, 2024 and 2023.

Revenue	Three Months Ended	
	March 31,	
	2024	2023
Precision Logistics	\$ 5,614	\$ 5,414
Authentication	145	247
Total Revenue	\$ 5,759	\$ 5,661

Consolidated revenue increased \$98 thousand or 2% during the first quarter of 2024 compared to the first quarter of 2023. The increase is primarily due to organic growth in our premium services in the Precision Logistics segment offsetting a decline in our proactive services related to a discontinued relationship with some lower margin customers. Revenue in our Authentication segment decreased due to timing of a significant customer order in 2023 that did not recur in the three months ended March 31, 2024.

<u>Gross Profit</u>	Three Months Ended			
	March 31,			
	2024		2023	
		% of Revenue		% of Revenue
Precision Logistics	\$ 2,129	38%	\$ 1,353	25%
Authentication	131	90%	168	68%
Total Gross Profit	\$ 2,260	39%	\$ 1,521	27%

Gross profit for the three months ended March 31, 2024, was \$2,260 thousand, compared to \$1,521 thousand for the three months ended March 31, 2023. The resulting gross margin was 39% for the three months ended March 31, 2024, compared to 27% for the three months ended March 31, 2023. The gross profit increase relates to the increased premium services revenue which has higher margins as well as process improvements to increase proactive services margins in the Precision Logistics segment. With the acquisition of Trust Codes in March 2023, providing custom software, our margins in the Authentication segment also increased.

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Segment Management and Technology

Segment management and technology expenses increased by \$238 thousand to \$1,343 thousand for the three months ended March 31, 2024, compared to \$1,105 thousand for the three months ended March 31, 2023. The increase relates primarily to the acquisition of Trust Codes Global in March 2023 and to lower capitalized labor costs. Amortization and depreciation expense of \$299 thousand for Q1 2024 compared to \$282 thousand in Q1 2023.

General and Administrative Expenses

General and administrative expenses decreased by \$292 thousand to \$1,121 thousand for the three months ended March 31, 2024, compared to \$1,413 thousand for the three months ended March 31, 2023. The decrease relates primarily to the acquisition costs of Trust Codes Global and severance expense of \$303 thousand in March 2023.

Research and Development

Research and development expenses were \$55 thousand and \$8 thousand for the three months ended March 31, 2024, and 2023, respectively.

Sales and Marketing

Sales and marketing expenses decreased by \$111 thousand to \$388 thousand for the three months ended March 31, 2024, compared to \$499 thousand for the three months ended March 31, 2023. The decrease is primarily related to a reduction in employees and consultants.

Interest Expense, net

Interest expense, net was \$38 thousand for the three months ended March 31, 2024, compared to \$42 thousand for the three months ended March 31, 2023.

Net Loss

Consolidated net loss for the three months ended March 31, 2024, and 2023 was \$553 thousand and \$1,580 thousand, respectively. The decreased loss was primarily related to an increase in gross profit. The resulting consolidated loss per share for the three months ended March 31, 2024, and three months ended March 31, 2023, was \$0.05 and \$0.17 per diluted share, respectively.

Liquidity and Capital Resources

Our operations used \$60 thousand of cash during the three months ended March 31, 2024, compared to \$126 thousand during the comparable period in 2023. The decrease in cash used from operations is due to more efficient use of our resources.

Cash used in investing activities was \$110 thousand during the three months ended March 31, 2024, compared to \$621 thousand during the three months ended March 31, 2023. The decrease in spend in investing activities related to the acquisition of the Trust Codes Global business in the three months ended March 31, 2023.

Cash used in financing activities during the three months ended March 31, 2024, was \$106 thousand compared to cash provided by financing activities during the three months ended March 31, 2023 of \$423 thousand. The decrease relates mainly to the proceeds from the line of credit of \$500 thousand that occurred in the three months ended March 31, 2023.

On August 25, 2023, the Company entered into a Convertible Note Purchase Agreement with certain investors for the sale of convertible promissory notes for the aggregate principal amount of \$1,100 thousand of which \$475 thousand was purchased by relating parties including certain members of management and the Board of Directors. The notes are subordinated unsecured obligations of the Company and accrue interest at a rate of 8% per year payable semiannually in arrears on February 25 and August 25 of each year, beginning on February 25, 2024. The notes will mature on August 25, 2026 unless earlier converted or repurchased at a conversion price of \$1.15 per share of common stock. The Company may not redeem the notes prior to the maturity date. As of March 31, 2024 the amount outstanding on the convertible debt was \$1,100 thousand and included in Convertible Note, and Convertible Note – related party on the accompanying Consolidated Balance Sheets. The Company has accrued interest expense of \$9 thousand as of March 31, 2024.

On September 22, 2022, PeriShip Global became a party to the PNC Facility with PNC Bank, National Association. The PNC Facility includes a \$1 million RLOC with a term of one-year, which was extended to December 14, 2023. We also entered into an amended and restated loan agreement with PNC effective October 31, 2023, which provided amendments to a number of affirmative and restrictive covenants applicable to PeriShip Global and extended the RLOC to September 30, 2024. The RLOC has no scheduled payments of principal until maturity, and bears interest per annum at a rate equal to the sum of Daily SOFR plus 2.85% with monthly interest payments. As of March 31, 2024, we had no borrowings under the RLOC.

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The PNC Facility also includes a four-year Term Note for \$2 million which matures in September of 2026 and requires equal quarterly payments of principal and interest. The Term Note incurs interest per annum at a rate equal to the sum of Daily SOFR plus 3.1%. The RLOC and Term Note are guaranteed by VerifyMe and secured by the assets of PeriShip Global and VerifyMe.

The PNC Facility includes a number of affirmative and restrictive covenants applicable to PeriShip Global, including, among others, a financial covenant to maintain a fixed charge coverage ratio of at least 1.10 to 1.00 at the end of each fiscal year, affirmative covenants regarding delivery of financial statements, payment of taxes, and establishing primary depository accounts with PNC Bank, and restrictive covenants regarding dispositions of property, acquisitions, incurrence of additional indebtedness or liens, investments and transactions with affiliates. PeriShip Global is also restricted from paying dividends or making other distributions or payments on its capital stock if an event of default (as defined in the PNC Facility) has occurred or would occur upon such declaration of dividend.

Of the proceeds of \$2.0 million from the Term note, we used \$1.8 million to settle debt outstanding issued in connection with the PeriShip Global acquisition, including the redemption of 61,000 shares of our common stock. As of March 31, 2024, our short-term debt outstanding under the Term note was \$0.5 million and total long-term debt outstanding under the Term note was \$0.8 million.

Effective October 17, 2022, we entered into an interest rate swap agreement, with a notional amount of \$1,958 thousand, effectively fixing the interest rate on our outstanding debt at 7.602%.

In December 2023, the Company's Board of Directors approved a new share repurchase program to allow the Company to spend up to \$0.5 million to repurchase shares of its common stock so long as the price per share does not exceed \$1.00 until December 14, 2024. During the three months ended March 31, 2024, the Company repurchased 1,000 shares of common stock for \$1 thousand under the Company's current program.

We believe that our cash and cash equivalents will fund our operations for the next 12 months. We may issue additional debt or equity as we grow our business which we expect to grow organically, and if the opportunity arises, through key acquisitions that will help accelerate the growth of our business.

Off-Balance Sheet Arrangements

None.

Critical Accounting Policies and Estimates

Our financial statements are impacted by the accounting policies used and the estimates and assumptions made by management during their preparation. We have identified below the accounting policies that are of particular importance in the presentation of our financial position, results of operations and cash flows and which require the application of significant judgment by management. We believe estimates and assumptions related to these critical accounting policies are appropriate under the circumstances; however, should future events or occurrences result in unanticipated consequences, there could be a material impact on our future financial position, results of operations or cash flows.

Revenue Recognition

Our revenue transactions include logistics management for time and temperature sensitive packages, sales of our ink canisters, software, licensing, pre-printed labels, integrated solutions, and leasing of our equipment. We recognize revenue based on the principals established in ASC Topic 606, "Revenue from Contracts with Customers." Revenue recognition is made when our performance obligation is satisfied. Our terms vary based on the solutions we offer and are examined on a case-by-case basis. For licensing our VerifyInk™ technology we depend on the integrity of our clients' reporting.

Goodwill

We have recorded goodwill as part of our acquisitions, which represents the excess of purchase price over the fair value of net assets acquired in the business combinations. Pursuant to ASC 350, the Company will test goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under authoritative guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the quantitative goodwill impairment test. The assessment considers factors such as, but not limited to, macroeconomic conditions, data showing other companies in the industry and our share price. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

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Stock-based Compensation

We account for stock-based compensation under the provisions of FASB ASC 718, "Compensation—Stock Compensation", which requires the measurement and recognition of compensation expense for all stock-based awards made to employees and directors based on estimated fair values on the grant date. We estimate the fair value of stock-based awards on the date of grant using the Black-Scholes model. The assumptions used in the Black-Scholes option pricing model include risk-free interest rates, expected volatility and expected life of the stock options. Changes in these assumptions can materially affect estimates of fair value stock-based compensation, and the compensation expense recorded in future periods. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods using the straight-line method.

For restricted stock units with stock price appreciation targets, we applied a lattice approach that incorporated a Monte Carlo simulation, which involved random iterations that took different future price paths over the restricted stock unit's contractual life based on the appropriate probability distributions (which are based on commonly applied Black Scholes inputs). The fair value was determined by taking the average of the grant date fair values under each Monte Carlo simulation trial. We recognize compensation expense on a straight-line basis over the performance period and there is no ongoing adjustment or reversal based on actual achievement during the period.

We account for stock-based compensation awards to non-employees in accordance with ASU No. 2018-07, which aligns accounting for share-based payments issued to nonemployees to that of employees under the existing guidance of Topic 718, with certain exceptions. This update supersedes previous guidance for equity-based payments to nonemployees under Subtopic 505-50, Equity – Equity-Based Payments to Non-Employees.

All issuances of stock options or other equity instruments to non-employees as consideration for goods or services received by the Company are accounted for based on the fair value of the equity instruments issued. Non-employee equity-based payments are recorded as an expense over the service period, as if we had paid cash for the services. At the end of each financial reporting period, prior to vesting or prior to the completion of the services, the fair value of the equity-based payments will be re-measured, and the non-cash expense recognized during the period will be adjusted accordingly. Since the fair value of equity-based payments granted to non-employees is subject to change in the future, the amount of the future expense will include fair value re-measurements until the equity-based payments are fully vested or the service completed.

Recently Adopted Accounting Pronouncements

Recently adopted accounting pronouncements are discussed in Note 1 – Summary of Significant Accounting Policies in the notes accompanying the financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable.

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to ensure information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. The Company's Chief Executive Officer, our principal executive officer, and Chief Financial Officer, our principal financial officer, have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2024, the end of the fiscal quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2024, our disclosure controls and procedures were effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is: (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our Chief

(b) Changes in Internal Control over Financial Reporting

Effective with the quarter ended March 31, 2024, an assessment of our subsidiary Trust Codes Global, which acquired the business and certain assets of Trust Codes Limited, is now within the scope of our internal controls over financial reporting. There have been no other changes in our internal controls over financial reporting (as defined in Rules 13a-15(d) and 15d-15(d) under the Exchange Act) during the three months ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

[Table of Contents](#)**PART II - OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS.**

None.

ITEM 1A. RISK FACTORS.

For a discussion of the Company's potential risks or uncertainties, please see "Part I—Item 1A—Risk Factors" and "Part II—Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2023, filed with the SEC, and "Part I—Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations" herein. There have been no material changes from the risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2023, and subsequent Quarterly Reports on Form 10-Q, except as noted herein.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**Share Repurchase Plan****ISSUER PURCHASES OF EQUITY SECURITIES**

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Units)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾ (In thousands)
01/01/2024- 01/31/2024	1,000	\$1.00	1,000	\$499
02/01/2024- 02/29/2024	-	-	-	-
03/01/2024- 03/31/2024	-	-	-	-
Total	1,000	\$1.00	1,000	\$499

(1) Purchases made pursuant to the Company's share repurchase program announced on December 8, 2024, pursuant to which the Company is authorized to purchase up to \$0.5 million worth of shares of its common stock so long as the price per share does not exceed \$1.00. Under the repurchase program, shares of the Company's common stock may be repurchased from time to time in open market transactions, in privately negotiated transactions or otherwise. The timing and the actual number of shares repurchased depend on a variety of factors, including legal requirements, price and economic and market conditions. The repurchase program may be suspended or discontinued at any time until it expires on December 14, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

During the three months ended March 31, 2024, no director or officer of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

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Exhibit No.	Description
10.1*#	Employee Bonus Plan.
31.1*	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document. The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH*	Inline XBRL Taxonomy Extension Schema Document.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document.
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

*Filed herewith

**Furnished herewith

Denotes management compensation plan or contract

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.

VERIFYME, INC.

Date: May 14, 2024

By: /s/ Adam Stedham

Adam Stedham
Chief Executive Officer
and President

(Principal Executive Officer)

Date: May 14, 2024

By: /s/ Nancy Meyers

Nancy Meyers
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and Principal Accounting
Officer)



BONUS PLAN

Overview

This discretionary Employee Bonus Plan outlines the criteria, process, and guidelines under which discretionary bonuses may be granted to eligible employees. When referring to any of your potential on target bonus payments, the figures would be payable in your local currency.

Eligible Employees

Full and part-time employees may be eligible as long as they meet the eligibility criteria for qualification of bonus as determined by the Company. Interns and temporary employees are not eligible. If you are eligible to participate in another cash variable compensation plan you will not be eligible to participate in this plan.

Eligibility Criteria for Qualification of Bonus

We have created this discretionary bonus plan to reward employees when our business objectives for both **profit** (referred to as 'adjusted EBITDA') and **revenue** are met. Note that the adjusted EBITDA formula used for this plan is the same formula used to calculate adjusted EBITDA that VRME publicly reports.

An eligible employee's achievement of their full **on-target bonus**, which will be a percentage of their base salary as of January 1 of the applicable year, will be based on hitting targets for both criteria, as follows:

- If 100% of the annual adjusted EBITDA target is achieved, you will be eligible for up to 50% of your on-target bonus.
- If 100% of the annual revenue target is achieved, you will be eligible for up to the remaining 50% of your on-target bonus, provided that the adjusted EBITDA target has also been achieved at 100%.
- For the avoidance of doubt, you will not be eligible for any bonus payments for partial achievement of either adjusted EBITDA or Revenue targets.
- The Compensation Committee will determine the adjusted EBITDA and revenue achieved for a year, and its determination shall be binding on you and all participating employees.
- Any earned bonus will be based on your salary as of January 1 for the applicable year. If you were employed after this date, any earned bonus will be based on your original starting salary.
- If targets are not achieved, no bonus will be payable.
- If only the revenue target is achieved but not the adjusted EBITDA target, no bonus will be payable.

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- If only the adjusted EBITDA target is achieved, you will be eligible for up to 50% of the on-target bonus.
- If you were not employed in an eligible status for the full year, you will be eligible for a pro-rated bonus (i.e. if you have worked for 6 full months you will be eligible to receive up to 50% of any earned bonus amount).
- If an employee is hired after September 30 of the applicable year, they will not be eligible for the bonus under this plan for that calendar year.
- Participation in this plan does not form part of and does not affect or change your employment contract or your employment relationship with your employer. All bonuses received constitute an extraordinary payment and will not be considered part of your normal remuneration.

The Compensation Committee has the discretion to determine the actual amount of any cash bonus paid under this plan, and its determination shall be binding on you and all participating employees.

Employees who qualify will be notified of their on-target bonus percentage separately.

Opportunity to Increase Bonus Award

Your annual bonus will be eligible for increases if actual revenue **exceeds the revenue targets**.

This increase will be applied solely on the basis of exceeding the revenue target, so long as the adjusted EBITDA target is met. For every percentage point the revenue exceeds the target, your potential bonus amount will be increased by the same percentage up to a maximum of 150%. For example, if the adjusted EBITDA target is met and the annual revenue exceeds the target by 10%, your potential bonus amount will be increased by 10% (if your full on-target bonus is \$1,000, you would receive \$1,100).

All bonus payments are:

- Subject to tax withholding (or equivalent country-based deductions).
- Conditional on you being employed on the payment date and not having given notice of retirement or resignation at the time of payment.
- Conditional upon you not being placed on a performance improvement plan before the payment date.

Timing of Payment

The bonus earned for a calendar year will be payable in the following calendar year once the VerifyMe adjusted EBITDA and revenue results have been announced to the market. This payment will be made in the following year by the end of **April**.

Termination and Amendment

Please note that the company reserves the right to terminate or amend the plan or the targets at any time without employee consent. Please be assured that the entire management team is focused on delivering a successful and prosperous year for VerifyMe and all of our employees. Thank you in advance for playing your essential part in the company achieving its goals for profitability and growth. We very much hope to reward your endeavors by paying a well-deserved bonus based on results achieved each year.

* Please note, if you have another variable compensation plan and have received this letter in error, you should inform your manager as you will not be eligible for this plan.

*

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Adam Stedham, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VerifyMe, 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 officer(s) 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 control 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial 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 control over financial reporting.

Date: May 14, 2024

/s/ Adam Stedham
Adam Stedham
Chief Executive Officer and President
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Nancy Meyers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VerifyMe, 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 officer(s) 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 control 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial 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 control over financial reporting.

Date: May 14, 2024

/s/ Nancy Meyers

Nancy Meyers
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal 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 VerifyMe, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof, I, Adam Stedham, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Adam Stedham

Adam Stedham
Chief Executive Officer and President
(Principal Executive Officer)
Date: May 14, 2024

In connection with the quarterly report of VerifyMe, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof, I, Nancy Meyers, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The quarterly report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the quarterly report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Nancy Meyers

Nancy Meyers
Executive Vice President and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
Date: May 14, 2024

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to VerifyMe, Inc. and will be retained by VerifyMe, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
