

Intelli Check Mobilisa, Inc  
Form 10-Q  
November 07, 2008

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

**Form 10-Q**

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

For the quarterly period ended September 30, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 001-15465

**Intelli-Check – Mobilisa, Inc.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or Other Jurisdiction of  
Incorporation or Organization)

11-3234779  
(I.R.S. Employer Identification No.)

191 Otto Street, Port Townsend, WA 98368  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (360) 344-3233

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

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

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

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

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

Class	Outstanding at November 6, 2008
Common Stock, \$.001 par value	25,283,535

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**PART I – FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****INTELLI-CHECK – MOBILISA, INC.****CONSOLIDATED BALANCE SHEETS**

	September 30, 2008 (Unaudited)	December 31, 2007
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,520,269	\$ 392,983
Marketable securities and short-term investments	800,000	1,650,000
Accounts receivable, net of allowance of \$53,000 and \$10,000 as of September 30, 2008 and December 31, 2007, respectively	2,430,589	1,076,732
Inventory	160,441	62,784
Other current assets	257,131	543,571
<b>Total current assets</b>	<b>5,168,430</b>	<b>3,726,070</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>503,235</b>	<b>81,464</b>
<b>GOODWILL</b>	<b>37,615,522</b>	<b>-</b>
<b>INTANGIBLE ASSETS, net</b>	<b>13,578,781</b>	<b>23,961</b>
<b>DEFERRED ACQUISITION COSTS</b>	<b>-</b>	<b>208,000</b>
<b>OTHER ASSETS</b>	<b>51,395</b>	<b>34,916</b>
<b>Total assets</b>	<b>\$ 56,917,363</b>	<b>\$ 4,074,411</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 303,437	\$ 150,099
Accrued expenses	639,681	533,609
Deferred revenue	1,917,704	1,278,869
Income taxes payable	168,732	-
<b>Total current liabilities</b>	<b>3,029,554</b>	<b>1,962,577</b>
<b>OTHER LIABILITIES</b>	<b>832,897</b>	<b>91,681</b>
<b>Total liabilities</b>	<b>3,862,451</b>	<b>2,054,258</b>
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock - \$.001 par value; 40,000,000 shares authorized; 25,283,535 and 12,281,728 shares issued and outstanding, respectively	25,284	12,282
Additional paid-in capital	98,202,451	46,668,941
Accumulated deficit	(45,172,823)	(44,661,070)
<b>Total stockholders' equity</b>	<b>53,054,912</b>	<b>2,020,153</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 56,917,363</b>	<b>\$ 4,074,411</b>

See accompanying notes to financial statements

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**INTELLI-CHECK – MOBILISA, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>REVENUES</b>	\$ 3,538,994	\$ 856,938	\$ 7,402,126	\$ 2,281,533
<b>COST OF REVENUES</b>	(973,485)	(388,885)	(1,979,057)	(876,047)
Gross profit	2,565,509	468,053	5,423,069	1,405,486
<b>OPERATING EXPENSES</b>				
Selling	453,969	354,783	1,171,912	1,160,703
General and administrative	1,274,701	477,563	3,112,851	1,837,814
Research and development	684,373	281,013	1,691,387	831,058
Total operating expenses	2,413,043	1,113,359	5,976,150	3,829,575
Income (loss) from operations	152,466	(645,306)	(553,081)	(2,424,089)
<b>OTHER INCOME (EXPENSE)</b>				
Interest income	9,708	37,564	51,527	135,646
Other expense	(10,199)	-	(10,199)	-
	(491)	37,564	41,328	135,646
Net income (loss)	\$ 151,975	\$ (607,742)	\$ (511,753)	\$ (2,288,443)
<b>PER SHARE INFORMATION</b>				
Net income (loss) per common share				
-				
Basic	\$ 0.01	\$ (0.05)	\$ (0.02)	\$ (0.19)
Diluted	\$ 0.01	\$ (0.05)	\$ (0.02)	\$ (0.19)
Weighted average common shares used in computing per share amounts				
-				
Basic	25,244,594	12,281,728	21,502,992	12,256,701
Diluted	26,614,889	12,281,728	21,502,992	12,256,701

See accompanying notes to financial statements

**INTELLI-CHECK – MOBILISA, INC.****CONSOLIDATED STATEMENTS OF CASH FLOW**  
(Unaudited)

	Nine months ended September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (511,753)	\$ (2,288,443)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	973,294	29,214
Provision for doubtful accounts	43,000	-
Noncash stock-based compensation expense	294,917	456,988
Loss on sale of assets	10,199	-
Changes in assets and liabilities:		
Increase in accounts receivable	(13,136)	(313,782)
Increase in inventory	(35,164)	(21,907)
Decrease (increase) in other current assets	316,410	(15,315)
Increase in other assets	(148,422)	-
Decrease in accounts payable and accrued expenses	(321,936)	(68,142)
(Decrease) increase in deferred revenue	(370,042)	100,795
Decrease in income taxes payable	(476,394)	-
Decrease in other liabilities	-	(75,000)
Net cash used in operating activities	(239,027)	(2,195,592)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of marketable securities and short-term investments	-	(3,237,000)
Sales of marketable securities and short-term investments	850,000	4,971,137
Purchases of property and equipment	(107,232)	(25,698)
Cash of Mobilisa, Inc., at date of acquisition	335,836	-
Net cash provided by investing activities	1,078,604	1,708,439
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of common stock from exercise of stock options and warrants	287,709	232,359
Net cash provided by financing activities	287,709	232,359
Increase (decrease) in cash and cash equivalents	1,127,286	(254,794)
CASH AND CASH EQUIVALENTS, beginning of period	392,983	526,917
CASH AND CASH EQUIVALENTS, end of period	\$ 1,520,269	\$ 272,123

Supplemental schedule of noncash investing and financing activities:

On March 14, 2008, the Company acquired all of the common stock of Mobilisa, Inc. by issuing common stock and options in the amount of \$50,963,886.

See accompanying notes to financial statements





**INTELLI-CHECK – MOBILISA, INC.****CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY**

For the nine months ended September 30, 2008

(Unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-in Capital	Deficit	
BALANCE, January 1, 2008	12,281,728	\$ 12,282	\$ 46,668,941	\$ (44,661,070)	\$ 2,020,153
Stock-based compensation expense	-	-	263,544	-	263,544
Issuance of common stock for the acquisition of Mobilisa, Inc.	12,281,650	12,282	50,951,604	-	50,963,886
Issuance of common stock as directors compensation	97,971	98	31,275	-	31,373
Exercise of options	622,186	622	287,087	-	287,709
Net loss	-	-	-	(511,753)	(511,753)
BALANCE, September 30, 2008	25,283,535	\$ 25,284	\$ 98,202,451	\$ (45,172,823)	\$ 53,054,912

See accompanying notes to financial statements

**INTELLI-CHECK – MOBILISA, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business

Intelli-Check - Mobilisa, Inc. (the “Company” or “Intelli-Check” or “We”) is a leading technology company in developing and marketing wireless technology and identity systems for various applications including: mobile and handheld wireless devices for the government, military and commercial markets. Products include the Defense ID systems, an advanced ID card access-control product that is currently protecting over 50 military and federal locations and ID-Check a technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from approximately 60 jurisdictions in the U.S. and Canada to determine if the content and format are valid. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys. Creating improved communications across water, our wireless solutions have capabilities for security, environmental protection and mobile networking.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Mobilisa, Inc. (“Mobilisa”). The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa’s results of operations are included in the financial statements for the period March 15 through September 30, 2008. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at September 30, 2008 and the results of its operations for the three and nine months ended September 30, 2008 and 2007, stockholders’ equity for the nine months ended September 30, 2008 and cash flows for the nine months ended September 30, 2008 and 2007. All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company’s annual financial statements. Results of operations for the three and nine month periods ended September 30, 2008, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2008.

The balance sheet as of December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

Liquidity

The Company anticipates that its cash on hand, marketable securities and cash resources from expected revenues from the sale of the units in inventory and the licensing of its technology will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. These requirements are expected to include the purchase of inventory, product development, sales and marketing expenses, working capital requirements and other general corporate purposes. The Company may need to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for its technology, enhance its operating infrastructure, respond to competitive pressures, or acquire complementary businesses or technologies. There can be no assurance that the Company will be able to secure the additional funds when needed or obtain such on terms satisfactory to the Company, if at all.

## Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which is effective for calendar year companies on January 1, 2008. The Statement defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"), which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of this pronouncement.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115". This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2007. The Company has elected not to adopt the fair value option of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), "Business Combinations." SFAS 141R replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for how an acquirer, a) recognizes and measures the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures the goodwill acquired and c) determines what information to disclose. SFAS 141R also requires that all acquisition-related costs, including restructuring, be recognized separately from the acquisition. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement eliminates adjustments to goodwill for changes in deferred tax assets and uncertain tax positions after the acquisition accounting measurement period (limited to one year from acquisition), including for acquisitions prior to adoption of SFAS 141R. The Company does not expect the adoption of SFAS 141R will have a material impact on the results of its consolidated operations and financial condition.

In December 2007, the FASB also issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements". SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements and eliminates the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities," which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why and entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging

Activities” and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This statement’s disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of SFAS 161 will have on its consolidated results of operations and financial condition.

In June 2007, the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities," which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The adoption of EITF Issue No. 07-3 did not have a material impact on the consolidated results of operations and financial condition.

In April 2008, the FASB issued Staff Position FSP 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for financial statements issued after December 15, 2008. The Company does not expect the adoption of FSP 142-3 to have a material effect on its consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires that issuers of certain convertible debt instruments that may be settled in cash upon conversion to separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The accounting for these types of instruments under APB 14-1 is intended to appropriately reflect the underlying economics by capturing the value of the conversion options as borrowing costs; therefore, recognizing their potential dilutive effects on earnings per share. The effective date of APB 14-1 is for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and does not permit earlier application. However, the transition guidance requires retrospective application to all periods presented and does not grandfather existing instruments. The Company is currently evaluating the potential impact, if any, the adoption of APB 14-1 may have on its consolidated results of operations and financial condition.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("EITF 03-6-1"). EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents under Statement No. 128, Earnings Per Share. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents will be considered participating securities and will be included in the computation of earnings per share pursuant to the two-class method. The effective date of EITF 03-6-1 is for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those years. Early adoption is not permitted. Once effective, all prior period earnings per share data presented will be adjusted retrospectively. The Company is currently evaluating the potential impact, if any, the adoption of EITF 03-6-1 may have on its consolidated results of operations and financial condition.

In October 2008, the FASB issued FASB Staff Position FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP 157-3"). FSP 157-3 clarified the application of FAS 157. FSP 157-3 demonstrated how the fair value of a financial asset is determined when the market for that financial asset is inactive. FSP 157-3 was effective upon issuance, including prior periods for which financial statements had not been issued. The implementation of this standard did not have an impact on our consolidated financial statements.

#### Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include deferred tax valuation allowances, allowance for doubtful

accounts and the fair value of options granted under the Company's stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.



### Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of September 30, 2008, cash equivalents included money market funds and other liquid short-term debt instruments (with maturities at date of purchase of three months or less) of \$969,841.

### Marketable Securities and Short Term Investments

The Company classifies its investments in marketable securities as available-for-sale securities and accounts for them in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS No. 115, securities purchased to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. The Company continually evaluates whether any marketable investments have been impaired and, if so, whether such impairment is temporary or other than temporary. All of the Company's marketable securities have maturities of less than one year with a weighted average interest rate of 1.3%. The carrying value of the marketable securities as of September 30, 2008 approximated their fair market value. Marketable Securities and Short Term Investments are invested in Municipal Auction Rate Securities. Since mid-February 2008, many auctions have failed and holders were unable to sell their holdings of these auction rate securities. In accordance with an agreement with the New York State Attorney General our broker has agreed to repurchase these securities at full value including accrued interest. We expect to receive these funds in mid-November of 2008. Realized gains and losses on available-for-sale securities are calculated using the specific identification method. During the three and nine month periods ended September 30, 2008 and 2007, realized gains and losses on available-for-sale securities were insignificant.

### Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions and other factors that may affect customers' ability to pay.

### Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized but reviewed annually for impairment.

### Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 4. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

### Revenue Recognition and Deferred Revenue

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

direct sales of our products is recognized when shipped to the customer and title has passed. The Company's products require continuing service or post contract customer support and performance; accordingly, a portion of the revenue pertaining to the service and support is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Currently, with respect to sales of certain of our products, the Company does not have enough experience to identify the fair value of each element, therefore the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

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

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

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

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

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

#### Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods.

#### Business Concentrations and Credit Risk

During the three months and nine month periods ended September 30, 2008, the Company made sales to two and one customer that accounted for approximately 36% and 26% of total revenues, respectively. These revenues result from a research contract with the U.S. government and sales to a large retail customer. During the three and nine months ended September 30, 2007, the Company made sales to two customers that accounted for approximately 31% and 26% of total revenues, respectively.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

#### Note 2. Acquisition of Mobilisa, Inc.

On November 20, 2007, the Intelli-Check and Mobilisa, Inc., a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which a wholly-owned subsidiary of Intelli-Check would merge with and into Mobilisa, resulting in Mobilisa becoming a wholly-owned subsidiary. At a special meeting of stockholders held on March 14, 2008, the Company's stockholders voted to approve the merger, as well as to amend Intelli-Check's certificate of incorporation to change the name of the Company to Intelli-Check – Mobilisa, Inc., increase the authorized shares of common stock and to increase the number of shares issuable under our 2006 Equity Incentive Plan by 3,000,000. The headquarters of Intelli-Check was moved to Mobilisa's offices in Port Townsend, Washington. The transaction was accounted for using the purchase method of accounting. The

unaudited pro forma condensed statements of operations are presented below as if the acquisition had been completed as of the beginning of the applicable periods presented.

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	Three Months Ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Revenues	\$ 3,538,994	\$ 2,904,953	\$ 8,449,036	\$ 6,344,678
Net income (loss)	\$ 151,975	\$ (649,016)	\$ (1,478,292)	\$ (3,155,662)
Net income (loss) per share	\$ 0.01	\$ (0.03)	\$ (0.06)	\$ (0.13)

The purchase price allocation included within these unaudited consolidated financial statements is based upon an estimated purchase price of approximately \$51.3 million, consisting of an exchange ratio of 1.091 shares of Intelli-Check common stock for each share of Mobilisa common stock, stock options, warrants and transaction costs. On March 14, 2008, the Company issued 12,281,650 common shares to Mobilisa stockholders. Under the purchase method of accounting and the guidance of EITF 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination", the fair value of the equity consideration was determined using an average of Intelli-Check's closing share prices beginning two days before and ending two days after November 21, 2007, the date on which the Merger Agreement was announced, or \$3.54 per share.

Outstanding options to purchase Mobilisa common stock were assumed by Intelli-Check and converted into options to purchase Intelli-Check common stock, based on a formula in the merger agreement. No cash consideration was paid for stock options. For purpose of the valuation, the fair value of the assumed options was estimated using the Black Scholes model. The vested portion of this fair value is included in the purchase price. The valuation assumptions used were: expected dividend yield 0%, expected volatility 63%, expected life 2.5 years and risk free interest rate 1.65%.

#### Purchase Price Allocation

The allocation of the purchase price to Mobilisa's tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values.

The calculation of purchase price and goodwill and other intangible assets is estimated as follows:

Fair value of Intelli-Check common stock issued to Mobilisa shareholders	\$ 43,477,040
Fair value of Intelli-Check common vested stock awards to be issued as consideration for replacement of outstanding Mobilisa vested stock awards	7,486,846
Transaction costs	357,861
Estimated total purchase price	\$ 51,321,747
Purchase price allocated to:	
Tangible assets acquired less liabilities assumed	\$ (523,067)
Identifiable intangible assets	14,440,000
Deferred tax adjustments	(210,708)
Goodwill	37,615,522
	\$ 51,321,747

The allocation of the purchase price is preliminary and subject to change.

Tangible assets acquired and liabilities assumed

Intelli-Check has estimated the fair value of tangible assets acquired and liabilities assumed. These estimates are based on a valuation dated as of March 14, 2008, the date of the acquisition.

Identifiable intangible assets

Intelli-Check has estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach. The following table sets forth the components of these intangible assets and their estimated useful lives as of September 30, 2008:

	Estimated Useful Life	Cost	Accumulated Amortization	Net
Trade name	20 years	\$ 1,300,000	\$ 35,208	\$ 1,264,792
Patents	17 years	1,550,000	49,387	1,500,613
Developed technology	7 years	5,140,000	397,738	4,742,262
Backlog	3 years	820,000	207,590	612,410
Non-contractual customer relationships	15 years	5,630,000	190,599	5,439,401
		\$ 14,440,000	\$ 880,522	\$ 13,559,478

The Company expects that amortization expense for the next five succeeding years will be as follows:

Year 1	\$ 1,608,748
Year 2	1,449,387
Year 3	1,281,287
Year 4	1,242,337
Year 5	1,242,337

These amounts are subject to change based upon the review of recoverability and useful lives that are performed at least annually.

Note 3. Income Taxes

As of September 30, 2008, the Company had net operating loss carryforwards (NOL's) for federal and New York State income tax purposes of approximately \$35.8 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2027 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes. The Company has not yet completed its review to determine whether or not these NOL's will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

Mobilisa was a profitable company subject to income taxes. The income tax payable amount of \$168,732, as of September 30, 2008, represents the balance assumed by the Company at the date of acquisition.

The effective tax rate for the three and nine months ended September 30, 2008 and 2007 is different from the tax benefit that would result from applying the statutory tax rates primarily due to expected utilization of the NOL's in the third quarter of 2008 and because of the full valuation allowance on the deferred tax assets in the other periods presented.

Note 4. Net Income (Loss) per Common Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive shares. The following table sets forth the computation of basic and diluted net (loss) income per share for the periods indicated:

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	Three Months Ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Numerator:</b>				
Net income (loss)	\$ 151,975	\$ (607,742)	\$ (511,753)	\$ (2,288,443)
<b>Denominator:</b>				
Weighted average common shares – basic	25,244,594	12,281,728	21,502,992	12,256,701
Dilutive effect of equity incentive plans	1,370,295	-	-	-
Weighted average common shares – diluted	26,614,889	12,281,728	21,502,992	12,256,701
<b>Net income (loss) per share</b>				
Basic	\$ 0.01	\$ (0.05)	\$ (0.02)	\$ (0.19)
Diluted	\$ 0.01	\$ (0.05)	\$ (0.02)	\$ (0.19)
<b>Common stock equivalents excluded from income (loss) per diluted share because their effect would be anti-dilutive</b>				
Stock options	1,228,940	2,033,217	3,076,306	2,033,217
Warrants	809,000	922,636	875,551	922,636
Total	2,037,940	2,955,853	3,951,857	2,955,853

#### Note 5. Stock-Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance with SFAS No. 123(R), which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees. We included stock based compensation in selling, general and administrative expense for the cost of stock options.

Stock based compensation expense for the three and nine months ended September 30, 2008 and 2007 is as follows:

	Three Months Ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
<b>Compensation cost recognized:</b>				
Stock options	\$ 50,656	\$ 80,910	\$ 263,544	\$ 330,988
Restricted stock	31,373	-	31,373	126,000
	\$ 82,029	\$ 80,910	\$ 294,917	\$ 456,988



In order to retain and attract qualified personnel necessary for the success of the Company, the Company adopted several Stock Option Plans from 1998 through 2004 (and an amendment to the 2004 plan in 2006 pursuant to which the plan was renamed the “2006 Equity Incentive Plan” and amended to provide for the issuance of other types of equity incentives such as restricted stock grants) (collectively, the “Plans”) covering up to 3,250,000 of the Company’s common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers these Plans and determines the terms and conditions of options granted, including the exercise price. These Plans generally provide that all stock options will expire within ten years of the date of grant. Incentive stock options granted under these Plans must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. These Plans also entitle non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors. At the Company’s special meeting of Stockholders held on March 14, 2008, the stockholders voted to amend the 2006 Equity Incentive Plan (the “Plan”) to increase the number of shares of Common Stock authorized to be issued by 3,000,000.

Option activity under the Plans as of September 30, 2008 and changes during the nine months ended September 30, 2008 were as follows:

	Shares (1)	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at January 1, 2008	1,460,217	\$ 5.47		
Granted	574,719	2.30		
Replacement options issued to Mobilisa employees	2,363,381	0.50		
Exercised	(622,186)	0.46		
Forfeited or expired	(699,825)	4.78		
Outstanding at September 30, 2008	3,076,306	\$ 2.23	4.26	\$ 2,069,876
Exercisable at September 30, 2008	2,584,419	\$ 2.22	4.15	\$ 2,069,876

(1) Included in the table are 67,500 non-plan options, of which all options are fully vested.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company’s closing stock price on the last trading day of the third quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2008. This amount changes based upon the fair market value of the Company’s stock. The total intrinsic value of options exercised for the nine months ended September 30, 2008 was \$1,420,182.

As of September 30, 2008, unrecognized compensation expense, net of estimated forfeitures, related to granted and non-vested stock options and restricted stock amounted to approximately \$670,859 and is expected to be recognized over a weighted-average period of 2.6 years.

As of September 30, 2008, the Company had 1,718,740 options available for future grant under the Plans.

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

The fair value of share-based payment units was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values as follows:

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	Three Months Ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Weighted average fair value of grants	\$ 1.13	\$ 1.61	\$ 1.20	\$ 2.85
Valuation assumptions:				
Expected dividend yield	0.00%	0.00%	0.00%	0.00%
Expected volatility	58.8%	60.5%	59.6%	58.8%
Expected life (in years)	4.62	4.5	4.85	4.58
Risk-free interest rate	3.27%	4.21%	3.26%	4.62%

#### Note 6. Legal Proceedings

On August 1, 2003, we filed a summons and complaint against Tricom Card Technologies, Inc. alleging infringement on our patent and seeking injunctive and monetary relief. On October 23, 2003, we amended our complaint to include infringement on an additional patent. On May 18, 2004, we filed a Second Amended Complaint alleging infringement and inducement to infringe against certain principals of Tricom in their personal capacities, as well as alleging in the alternative false advertising claims under the Lanham Act against all the defendants. The principals moved to dismiss the claims against them, and Tricom moved to dismiss the false advertising claims, which motions have been administratively terminated by the Court. On August 1, 2005, defendants filed an Answer and Affirmative Defenses to the Second Amended Complaint and Tricom filed a declaratory counterclaim. On November 2, 2005, the Court allowed Tricom to plead two additional defenses and declaratory counterclaims in the case, and on January 3, 2006, the parties filed a Stipulation of Dismissal of the Estoppel and Unenforceability Counterclaims and Affirmative Defenses. On February 28, 2006, the parties filed a Supplemental Proposed Joint Pretrial Order, and on March 1, 2006, the Court certified that fact discovery in this action was complete. On June 29, 2006, the Court held a pre-motion conference at our request to discuss our proposed motion to disqualify defendants' counsel for a conflict of interest. Pursuant to the Court's order, we served moving papers upon defendants on July 14, 2006 and defendants served opposition to the motion on around July 28, 2006. We served a reply to the opposition on August 11, 2006 and filed the motion with the Court. Also, on or about July 21, 2006, defendants filed with the Court a motion for claim construction together with our opposition to defendants' motion and defendants' reply to the opposition. On October 21, 2008, the Court issued an order denying our motion to disqualify defendant's counsel for a conflict of interest. Except for this order, there has been no change in the status of this lawsuit. As of October 30, 2008, the Court has not scheduled a hearing date for the remaining motion and there is no trial date pending.

We are not aware of any infringement by our products or technology on the proprietary rights of others.

Other than as set forth above, we are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

#### Note 7. Commitments and Contingencies

On March 14, 2008, the Company entered into an employment agreement with Dr. Ludlow, pursuant to which Dr. Ludlow was appointed the Company's Chief Executive Officer. Dr. Ludlow will receive a salary of \$220,000 per year, be granted options to purchase 25,000 shares of the Company's common stock on March 20, 2008 that will be immediately exercisable at a price per share equal to 110% of the fair market value of the Company's common stock on the date of grant, and an annual bonus based on reasonable objectives established by the Company's Board of Directors. In the first quarter of 2008, the Company recorded \$66,120 of stock based compensation related to these options. Dr. Ludlow will be entitled to receive benefits in accordance with the Company's existing benefit policies and will be reimbursed for Company expenses in accordance with the Company's expense reimbursement policies. The employment agreement has a term of two years. Dr. Ludlow may terminate the agreement at any time on 60 days prior written notice to the Company. In addition, the Company or Dr. Ludlow may terminate the employment agreement

immediately for cause, as described in the employment agreement. If the Company terminates the agreement without cause, Dr. Ludlow will be entitled to severance equal to one year of his base salary, in addition to salary already earned. If Dr. Ludlow terminates the agreement for cause, Dr. Ludlow will be entitled to receive a payment equal to \$50,000, in addition to salary already earned.

## Note 8. Related Party Transactions

Mobilisa leases office space from a Company that is wholly-owned by two directors, who are members of management. For the three and nine months ended September 30, 2008, total rental payments for this office space was \$18,746 and \$40,611, respectively. The Company entered into a 10-year lease for the office space ending in 2017. The annual rent for this facility is currently \$74,986 and is subject to annual increases based on the increase in the CPI index plus 1%.

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

References made in this Quarterly Report of Form 10-Q to “we,” “our,” “us,” or the “Company,” refer to Intelli-Check Mobilisa, Inc.

The following discussion and analysis of our financial condition and results of operations constitutes management’s review of the factors that affected our financial and operating performance for the three and nine month periods ended September 30, 2008 and 2007. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K, for the year ended December 31, 2007. On November 20, 2007, Intelli-Check and Mobilisa, a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which our wholly-owned subsidiary would merge with and into Mobilisa, resulting in Mobilisa becoming a wholly-owned subsidiary.

### Overview

At a special meeting of stockholders held on March 14, 2008, Intelli-Check’s stockholders voted to approve the merger, as well as to amend Intelli-Check’s certificate of incorporation to change our name to Intelli-Check-Mobilisa, Inc., increase the authorized shares of common stock and to increase the number of shares issuable under our 2006 Equity Incentive Plan. The headquarters of Intelli-Check was moved to Mobilisa’s offices in Port Townsend, Washington.

The former shareholders of Mobilisa received shares of Intelli-Check common stock such that they own 50% of Intelli-Check’s common stock and options and warrant to purchase 2,429,932 shares of Intelli-Check – Mobilisa common stock. The aggregate value of the purchase consideration was \$51,321,747, based on the closing price of our common stock on November 20, 2007.

Mobilisa, Inc. was incorporated in the state of Washington in March 2001. Mobilisa was designated as a woman- and veteran-owned small business. Mobilisa’s headquarters in Port Townsend, Washington are located in a Historically Underutilized Business Zone (“HUBZone”). Mobilisa specializes in custom software development for mobile and wireless devices and Wireless Over Water (“WOW”) technology implementation and is comprised of two business units—ID systems and wireless technologies—designed to address the following issues:

§ Access Control: Mobilisa’s Defense ID<sup>®</sup> system is designed to increase security at access points manned by law enforcement and military personnel

§ Marine Environment Communications: Mobilisa’s WOW technology allows for high-speed communication between multiple points, both on land and at sea, across wide or over-water expanses, and optimizes performance by making point-to-point systems work as point-to-multipoint, using intelligent routing across a dynamic network topology, and minimizing Fresnel zones (Fresnel zones result from obstructions in the path of radio waves and impact the signal strength of radio transmissions). Mobilisa is currently developing Floating Area Network (“FAN”) technology, which allows ships within line of site to communicate with each other wirelessly at speeds faster than current, and

overused, satellite communications. In addition, our Littoral Sensor Grid technology is being developed as the next evolutionary step in marine communications and port security. Through the use of buoys, we have created multipurpose systems with environmental and military applications that are capable of having wireless connectivity and networking capabilities, are environmental sensors data collectors and have mobile and configurable plug-n-play surveillance packages.

§ Network Design: Mobilisa's AIRchitect™ tool designs optimum wireless networks based on equipment capabilities, user requirements and physical architecture of location where the wireless is to be installed.

Mobilisa also derives its revenue from selling handheld communication devices with patent-pending software which allows users to send various forms of identification and compare it to information on databases. A key component of Mobilisa's business strategy is its commitment to cutting-edge research and development in both ID systems and advanced applications of wireless technologies.

Intelli-Check was formed in 1994 to address a growing need for a reliable document and age verification system that could be used to detect fraudulent driver licenses and other widely accepted forms of government-issued identification documents. Since then, our technology has been further developed for application in the commercial fraud protection, access control and governmental security markets. Additionally, it is currently being used to increase productivity by addressing inefficiencies and inaccuracies associated with manual data entry. The core of Intelli-Check's product offerings is our proprietary software technology that verifies the authenticity of driver licenses and state issued non-driver and military identification cards used as proof of identity. Our patented ID-Check® software technology instantly reads, analyzes, and verifies the encoded format in magnetic stripes and barcodes on government-issued IDs from over 60 jurisdictions in the U.S. and Canada to determine if the encoded format is valid. We have served as the national testing laboratory for the American Association of Motor Vehicle Administrators (AAMVA) since 1999.

Because of continuing terrorist threats worldwide, we believe there has been a significant increase in awareness of our software technology to help improve security across many industries, including airlines, rail transportation and high profile buildings and infrastructure, which we believe may enhance future demand for our technology. The adaptation of Homeland Security Presidential Directive 12 (HSPD 12) and the promulgation of Federal Identity Processing Standards 201 (FIPS-201) have raised the awareness of our technology in the government sector. Therefore, we have begun to market to various government and state agencies, which have long sales cycles, including extended test periods. Since inception, we have incurred significant losses and negative cash flow from operating activities and, as of September 30, 2008, we had an accumulated deficit of approximately \$45 million. We will continue to fund operating and capital expenditures from proceeds that we received from sales of our equity securities. In view of the acquisition of Mobilisa and evolving nature of our business and our operating history, we believe that period-to-period comparisons of revenues and operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

By verifying the encoded format, our ID-Check® patented technology provides the ability to verify the validity of military IDs, driver licenses and state issued non-driver ID cards that contain magnetic stripes, bar codes SMART chips, and Radio Frequency ID technologies, which enables us to target three distinct markets. Our original target market was focused on resellers of age-restricted products, such as alcohol and tobacco, where the proliferation of high-tech fake IDs exposes merchants to fines and penalties for the inadvertent sale of these products to underage purchasers. We now also target commercial fraud, which includes identity theft, and our technology is designed to help prevent losses from these frauds. We are also marketing our products for security applications involving access control. As a result of its applicability in these markets, we have sold our products to some of the largest companies in the gaming industry, significant retailers, several large financial service companies and military facilities. Our technology is currently being used or tested by several Fortune 500 Companies. We have a strategic alliance with VeriFone, the largest provider of credit card terminals in the U.S., several system integrators in the defense industry and hardware manufacturers to utilize our systems and software as the proposed or potential verification application for their proposed solutions for credentialing in the government sector and to jointly market these security applications. Recent Department of Homeland Security initiatives, along with the regulations arising from HSPD-12, which sets the policy for a common identification standard for federal employees and contractors, and the new Transportation Worker Identity Credential or TWIC card, which is currently required for all sea-port workers by April 15, 2009 have additionally created opportunities for our verification technology in the governmental market at the federal, state and local levels. In addition, we have executed agreements with some high profile organizations to

promote the use of our technology and our products. We believe these relationships have broadened our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional high profile organizations and providers of security solutions.

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We have developed additional software products that utilize our patented software technology. Our products include ID-Check® Portal, ID-Check® POS, ID-Check® BHO, ID-Traveler and the ID-Prove software solution. ID-Check® Portal utilizes our ID-Check® technology together with ID-Prove to provide an additional layer of security to prove an individual's claimed identity. ID-Check® POS is the technology that has been integrated into multiple VeriFone platforms such as the 37xx series to enable the user to do verification of the encoded format on driver licenses as an additional function of the terminal. ID-Check® BHO is a browser helper object that enables a customer to add the ID-Check® technology as a "plug-in" to Internet Explorer pages without requiring software programming expertise. ID-Check® EHO is an executable helper object for non browser based applications. ID-Traveler electronically verifies and matches two forms of government issued IDs instantaneously while the embedded ID-Prove software solution provides "out of wallet" questions to assist in proving a user's claimed identity. Additional software solutions include ID-Check® PC and ID-Check® Mobile, which replicate the features of ID-Check®. Another application is C-Link®, the company's networkable data management software. Additionally, ID-Check® PC and C-Link® are designed to read the smart chip contained on the military Common Access Card (CAC). These products, which run on a personal computer, were created to work in conjunction with our ID-Check® technology and allow a user to first verify the encoded format and then view the encoded data for further verification. Our ID-Check® Mobile product gives the user the additional flexibility of utilizing our software in a hand-held product. To date, we have entered into multiple licensing agreements and are in discussions with additional companies to license our software to be utilized within other existing systems. We also have created the Im2700, or Mobile TWIC Reader, for use with the Department of Homeland Security's new TWIC card.

### **Critical Accounting Policies and the Use of Estimates**

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include deferred tax valuation allowances, allowance for doubtful accounts and the fair value of stock options granted under the Company's stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, stock based compensation, deferred taxes and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

#### *Revenue Recognition and Deferred Revenue*

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of our products is recognized when shipped to the customer and title has passed. The Company's products require continuing service or post contract customer support and performance; accordingly, a portion of the revenue pertaining to the service and support is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Currently, with respect to sales of certain of our products, the Company does not have enough experience to identify the fair value of each element, therefore the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

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

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

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

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

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

#### *Stock-Based Compensation*

On January 1, 2006, we adopted SFAS No. 123(R). Under this application, we are required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. SFAS No. 123(R) requires that the cost resulting from all share based payment transactions be recognized in the financial statements. SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires us to apply a fair value based measurement method in accounting for generally all share based payment transactions with employees.

#### *Deferred Income Taxes*

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We have recorded a full valuation allowance for our net deferred tax assets as of September 30, 2008, due to the uncertainty of the realizability of those assets.

#### *Commitments and Contingencies*

We are currently involved in certain legal proceedings as discussed in Note 6, above. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

### **Results of Operations**

#### *Comparison of the three months ended September 30, 2008 to the three months ended September 30, 2007*

Revenues for quarter ended September 30, 2008 increased 313% to \$3,538,994 compared to \$856,938 for the previous year. This amount exceeded our total revenues for all of 2007. Revenues from the Company's historical business

increased 47% to \$1,261,030 and Mobilisa's revenues contributed \$2,277,964. Total booked orders increased 145% in the third quarter of 2008 to \$2.7 million from \$1.1 million in the third quarter of 2007. As of September 30, 2008, our backlog, which represents non-cancelable sales orders for products and services not yet shipped or performed, was approximately \$9.4 million compared to \$2.6 million at September 30, 2007. This significant increase is principally a result of \$7.8 million added by Mobilisa.

Approximately \$7.5 million of the current backlog could be recognized over one to four years. Mobilisa has a significant amount of multi-year research and development contracts with the US government that will be recognized as the research is performed. In the commercial ID market, the actual recognition periods are determined depending upon the release dates by the customer.

Our gross profit as a percentage of revenues amounted to 72.5% for the three months ended September 30, 2008 compared to 54.6% for the three months ended September 30, 2007. The gross profit percentage increase in 2008 was a result of a change in product mix. The increase in margin was principally a result of a new enterprise license with a major customer, higher software upgrade fees in our historical business plus the impact of the high margined Mobilisa revenues in the quarter.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 117% to \$2,413,043 for the three months ended September 30, 2008 from \$1,113,359 for the three months ended September 30, 2007. Expenses in the third quarter of 2008 include \$1,189,987 of Mobilisa operating expenses as well as merger related intangible amortization costs of \$406,395, so on a comparative basis Intelli-Check's historical operating costs decreased by \$296,698. This reduction is principally a result of merger related synergy savings, including reductions in headcount, reductions in sales and marketing expenses and lower legal and consulting fees. As the Company experiences sales growth, we expect that we will incur additional operating expenses to support this growth. Research and development expenses may also increase as the level of research and development projects increase and we continue to integrate additional products and technologies with our patented ID-Check technology.

Interest income decreased from \$37,564 for the three months ended September 30, 2007 to \$9,708 for the three months ended September 30, 2008, which is principally a result of a decrease in our invested cash, marketable securities and short term investments as well as lower interest rates received on investments during 2008.

Other expense relates to the loss on the sale of equipment.

In the third quarter of 2008, we have not recorded a tax provision due to the expected utilization of net operating loss carryforwards.

As a result of the factors noted above, we are pleased to report the first quarterly profit since the inception of the Company. Our net income was \$151,975 for the three months ended September 30, 2008 as compared to a net loss of \$607,742 for the three months ended September 30, 2007.

*Comparison of the nine months ended September 30, 2008 to the nine months ended September 30, 2007*

The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa's results of operations are included in the financial statements for the period March 15 through September 30, 2008.

Revenues increased by 224%, to \$7,402,126 for the nine months ended September 30, 2008 from \$2,281,533 for the nine months ended September 30, 2007. Revenues from the Company's historical business increased 42% to \$3,239,844 and Mobilisa's revenues contributed \$4,162,282. Booked orders, which represent the total value of all new non-cancellable orders for products, services and fees received from our customers and distributors, during the first nine months of 2008 were \$4.5 million compared to \$4.0 million in the first nine months of 2007. However, period to period comparisons may not be indicative of future operating results, since we still face long sales cycles, particularly in the government sector, and, therefore, we cannot predict with certainty at this time in which period the opportunities currently in the pipeline will develop into sales or if they will develop at all.

Our gross profit as a percentage of revenues amounted to 73.3% for the nine months ended September 30, 2008 compared to 61.6% for the nine months ended September 30, 2007. The increase in margin was principally a result of a combination of the change in product mix in our historical business and the high margined Mobilisa revenues during the period.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 56% to \$5,976,150 for the nine months ended September 30, 2008 from \$3,829,575 for the nine months ended September 30, 2007. Expenses in the first nine months of 2008 include \$2,476,642 of Mobilisa operating expenses as well as merger related intangible amortization costs of \$880,522 that are not included in the comparative expenses in the first nine months of 2007. On a comparative basis Intelli-Check's historical operating costs decreased by \$1,210,589. This reduction is principally a result of merger related synergy savings, including reductions in headcount, reductions in sales and marketing expenses and lower legal and consulting fees. The 2007 period also included a \$152,000 death benefit paid to the spouse of the former CEO.

Interest income decreased from \$135,646 for the nine months ended September 30, 2007 to \$51,527 for the nine months ended September 30, 2008, which is a result of a decrease in our invested cash, marketable securities and short term investments, as well as lower interest rates received on investments during 2008.

We have incurred net losses to date, with the exception of this recent quarter; therefore, we have paid nominal income taxes.

As a result of the factors noted above, our net loss decreased from \$2,288,443 for the nine months ended September 30, 2007 to \$511,753 for the nine months ended September 30, 2008.

### **Liquidity and Capital Resources**

As of September 30, 2008, the Company had cash and cash equivalents, marketable securities and short term investments of \$2,320,269, working capital (defined as current assets minus current liabilities) of \$2,171,876, total assets of \$56,917,363 and stockholders' equity of \$53,054,912. As part of the merger, on March 14, 2008, the former shareholders of Mobilisa received shares of Intelli-Check common stock and options and warrant to purchase 12,429,932 shares of Intelli-Check – Mobilisa common stock. The aggregate value of the purchase consideration was equal to \$51.3 million, based on the average price of our common stock on the two days prior to and after November 20, 2007 of \$3.54 per share. Under purchase accounting rules, principally the entire purchase price was allocated to identifiable intangibles and goodwill on the balance sheet. The Company currently has no bank financing or long term debt.

The Mobilisa acquisition brought in approximately \$336,000 in cash to the Company. Exclusive of this cash, during the nine months ended September 30, 2008, the Company used net cash, marketable securities and short-term investments of approximately \$59,000. During the third quarter of 2008, the Company actually increased its cash, marketable securities and short-term investments by approximately \$267,000. Cash proceeds from stock option exercises were \$287,709 in the first nine months of 2008 compared to cash proceeds of \$232,359 in the first nine months of 2007. We currently anticipate that our available cash on hand and marketable securities, as well as cash from operations will be sufficient to meet our anticipated working capitals and capital expenditure requirements for at least the next 12 months.

Marketable Securities and Short Term Investments are invested in Municipal Auction Rate Securities. Since mid-February 2008, many auctions have failed and holders were unable to sell their holdings of these auction rate securities. In accordance with an agreement with the New York State Attorney General our broker has agreed to repurchase these securities at full value including accrued interest. We expect to receive these funds in mid-November of 2008.

We may need to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies. There can be no assurance that the Company will be able to secure the additional funds when needed or obtain such on terms satisfactory to the Company, if at all.

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We are currently involved in certain legal proceedings as discussed in Note 6 above. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

### **Net Operating Loss Carry Forwards**

As of September 30, 2008, the Company had net operating loss carryforwards (“NOL’s”) for federal income tax purposes of approximately \$35.8 million. There can be no assurance that the Company will realize the benefit of the NOL’s. The federal NOL’s are available to offset future taxable income and expire from 2018 to 2027 if not utilized. The Company has not yet completed its review to determine whether or not these NOL’s will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

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

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

### **Forward Looking Statements**

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, loss from operations and cash flow. Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substance in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management’s current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

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

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and marketable securities. The Company maintains cash between two financial institutions. The marketable securities consist primarily of short term investment grade corporate and government bonds and Certificate of Deposits. The Company performs periodic evaluations of the relative credit standing of these institutions.

## **Item 4T. CONTROLS AND PROCEDURES**

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

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. As of September 30, 2008, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e), were effective.

Our disclosure controls and procedures have been formulated to ensure (i) that information that we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 were recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) that the information required to be disclosed by us is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding



required disclosures.

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## Changes in Internal Controls over Financial Reporting

There was no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2008 covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II - OTHER INFORMATION

### Item 1A. RISK FACTORS

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

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

Our operations and financial results are subject to various other risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2007 for information concerning other risks and uncertainties that could negatively impact us.

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

None

### Item 3. DEFAULTS UPON SENIOR SECURITIES

None

### Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our Annual Meeting of Shareholders was held October 14, 2008.

A proposal to elect eight (8) directors each to serve for a one-year term was approved by the stockholders. The nominees received the following votes:

Name	Votes For	Votes Withheld
Lieutenant General Emil R. Bedard	23,353,263	109,408
Jeffrey Levy	23,257,163	205,508
Bonnie Ludlow	23,372,103	90,568
Nelson Ludlow	23,372,163	90,508
John E. Maxwell	23,367,148	95,523
Arthur L. Money	23,365,663	97,008
John W. Paxton	23,370,103	92,568
Guy L. Smith	23,370,103	92,568



Our stockholders ratified the appointment of Amper, Politziner & Mattia, P.C. as the Company's independent public accountants for the year ended December 31, 2007. This proposal received the following votes:

For	Against	Abstain
23,352,331	87,332	23,008

**Item 5. OTHER INFORMATION**

None

**Item 6. EXHIBITS**

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

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	18 U.S.C. Section 1350 Certifications

**Signatures**

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

Date: November 7, 2008

INTELLI-CHECK – MOBILISA, INC.

By: /s/ Nelson Ludlow  
Nelson Ludlow, PhD  
Chief Executive Officer

By: /s/ Peter J. Mundy  
Peter J. Mundy  
Chief Financial Officer  
(Principal Financial and Accounting Officer)